



# IS YOUR ERP SYSTEM CAUSING STOCKOUTS?

## MANAGING SEASONALITY IN INVENTORY REPLENISHMENT

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With ClearDay Web  
buyers see  
**stockouts**  
**decrease**  
by as much as 50%

Most of the distribution and retail companies that currently use our inventory replenishment system were previously using the native forecasting capability in their ERP system as a basis for their inventory replenishment. Typically, the buyers at those companies supplemented that limited functionality by maintaining multiple manual spreadsheets.

When we would start discussing the issues they were seeing with their inventory, the companies would tell me that they were experiencing too many stockouts of their core items. Interestingly, as we would dig into the issue, these item-specific stockouts would often occur around the same times of year.

They would also complain about their inventory turns being too low. Most companies had a strong suspicion that they were overstocked and could do better, but it was hard for them to fully identify where the specific problems were. Since they couldn't find the problems, it was thus impossible to fix them.

In most cases, we found that the buyers at these companies relied solely upon a report from their ERP host system for their replenishment quantities. These reports vary widely depending on how experienced and resourceful the IT team happens to be. But generally, buyers would receive a lengthy, overly-complex report with all the items and vendors they are responsible for managing.

The report would typically use some type of moving average as a basis for the current demand. It might also include the last 12 months of demand, and possibly a suggested buy quantity.

Once we would load their data into our forecasting and replenishment system, we would almost always find large discrepancies between what their ERP system wanted to buy and what our system wanted them to buy. As we analyzed the differences, we found that most distribution and retail ERP systems do a poor job in gauging demand as a basis for inventory replenishment, for three primary reasons.

First, **a moving average is blind to upcoming seasonality**. Thus the suggested buy quantity

from the ERP system is buying for what is already past. Before high season, it buys too low. At the high season comes to an end, the moving average accounts—too late—for the increased demand, so the system compensates by offering inflated buy recommendations just as the seasonal items enters a slower season.

Thus spring finds you with lots of heaters in stock but no demand. Your shelves are full of snow shovels and antifreeze when your customers are asking for sunscreen and beach towels.

Second, **there is inevitably more seasonality in items than most people think**. Heaters, snow shovels, and antifreeze are obvious. How about tonic water? Tonic water does the vast majority of its business in the early spring as days get longer, front porch swings get dusted off, and people start to crave a gin and tonic. Similarly, anything that is sold to and used by the construction industry will have seasonal demand around warmer weather, which follows different patterns based on geography.

Third, **longer lead times will accentuate the seasonality problem**. You must be able to predict your demand a lead time out. On imports, you may need to predict demand for three to six months away. And since the product follows seasonal patterns, your buying patterns must account for both lead time and seasonality to avoid a stockout that lasts for weeks or even months if the initial forecast was too low.

Before implementing ClearDay Web, the amount of lost sales at the start of each seasonal pattern was significant both financially and in terms of customer goodwill. Seasonality also played a large part of the problem with the nebulous overstock issues. During off seasons, they were holding too much inventory that was bought too late in the previous season.

After the buyers got used to much larger buy quantities a lead time before the high season started than they were used to... and conversely much smaller quantities in the middle of their high season, our customers would see stockouts go down by as much as 50%, and fill rates increase by 10% to 20%. 🌱

- Anticipate seasonality with proactive forecasting
- Include lead-time in seasonal buying patterns

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