



This article appeared in the Apr • May • Jun 2010 issue of *SAP Insider* (<http://sapinsider.wispubs.com>) and appears here with permission from the publisher, Wellesley Information Services (WIS).



Get on the Fast Track to Supply Chain Optimization

3 Best Practices to Streamline Your Inventory Processes

To boost efficiency, run a leaner operation, and drive down supply costs – arguably *the* top-of-mind goals for today’s manufacturers – many organizations are exploring **inventory optimization**. Inventory optimization is a technique for improving operational inventory targets to address the hard realities, such as a high number of inventory turns and low customer service levels, of today’s highly complex, ever-evolving global supply chains.

To help put your company on the inventory optimization fast track, I’ll share three best practices for enhancing your supply chain processes. These practices all center on the **SAP Enterprise Inventory Optimization application by SmartOps**, a solution extension supported by SAP (see Key Term box) that enables manufacturing, distribution, and retail companies to pursue optimal product availability while significantly reducing inventory and working capital. (Toward the end of the article, I’ll also offer a few bonus best practices.)

Best Practice #1: Take a Multi-Stage Approach to Inventory Management

Some companies use single-stage calculations for inventory targets – for example, setting up a single requirement plan without the flexibility or ability to make multiple changes across the enterprise – and then propagate these decisions back into the supply chain. Changes are made one at a time across the entire supply chain – a slow, cumbersome approach that hinders supply chain planners from effectively doing their jobs. This traditional, outdated approach starts with the idealized assumption that planners have complete knowledge of demand distribution, incorrectly accounts for uncertainty, and does not optimize the supply chain. But no planner knows everything, and the models that planners use should reflect this reality.

A multi-stage model is more realistic because it considers all inventory stages simultaneously, accounting for the inventory dependencies across stages at the item-location level and considering various variables and possible scenarios. As a result, inventory is optimized across the entire supply chain.

SAP Enterprise Inventory Optimization offers such a multi-stage modeling approach; the solution is based on advanced algorithms that account for the uncertainty present in supply, demand, and production inputs at a level of granularity that results in reliable, actionable outputs.

By leveraging SAP Enterprise Inventory Optimization, your planners can calculate the relationships among inventories, service levels, capacity, and costs across all stocking locations and stages – and across different types of supply chains, both within organizations and beyond enterprise boundaries, to support supplier and vendor-managed inventory.

Best Practice #2: Look at Supply Planning at the Enterprise Level

Supply planning is a collaborative activity that extends across and beyond enterprise boundaries. But many inventory optimization applications fail to address this expansiveness because they’re neither scalable nor capable of automating planning processes. To be



Rebecca Newell (rebecca.newell@sap.com) has held executive-level marketing and business management positions for more than 20 years. Rebecca began her career in the world of technology at Intel, then continued on to Novell and 3Com before joining SAP. At SAP, she has developed comprehensive go-to-market strategies to drive success for the solution extension applications portfolio worldwide.

✓ NOTE!

SAP Enterprise Inventory Optimization is flexible enough to accommodate different industries, such as consumer products, manufacturing, and high tech.

Key Term: **Solution Extensions**

Solution extensions are third-party software offerings, sold and supported by SAP, that you can quickly and independently deploy to swiftly address your key pain points. They are uniquely designed to assure your organization a positive ROI, expected within three-to-six months, and a low overall TCO. Tested to meet SAP product standards and integrated with the long-term SAP technology roadmap, these solutions are ideal for incorporating into SAP landscapes.



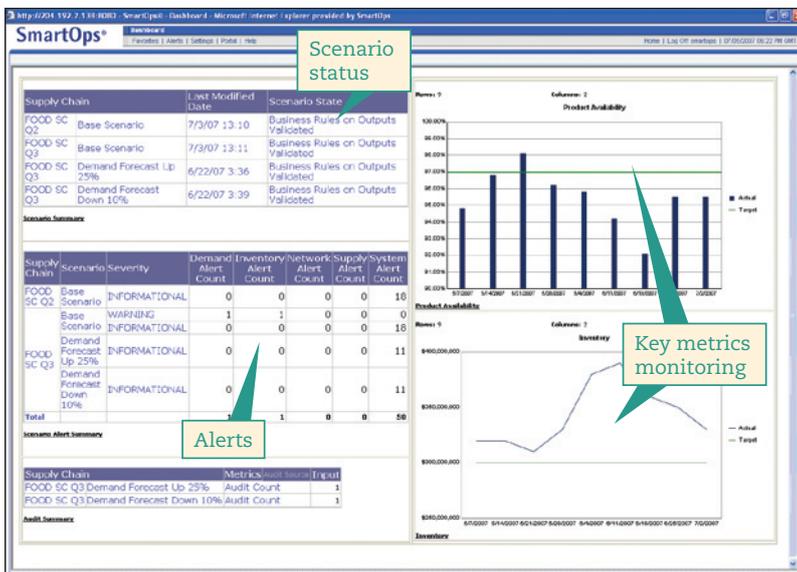


FIGURE 1 ▲ Offering a view into all the activities in the inventory planning process, SAP Enterprise Inventory Optimization allows planners to monitor scenario runs, view alerts, and manage the whole process by exception

Bonus Best Practices: 3 More Ways to Optimize Your Supply Chain

1. Exchange Information Directly with Customers' Systems

Electronically exchanging information directly with customers allows organizations to streamline their communications. The **SAP Information Interchange application by Crossgate** is a turnkey B2B content engine that enables companies to exchange purchase orders, forecasts, invoices, delivery notes, and other documents electronically from customers' SAP applications.

2. Better Manage Your Invoicing Process

To keep your supply chain running smoothly, you need to ensure that you process vendor invoices accurately and in a timely manner. Enabling enterprise-wide visibility into the accounts payable process, the **SAP Invoice Management application by Open Text** streamlines the creation, monitoring, and routing of purchase orders and invoices.*

3. Automate Your Paper-Based Supply Chain Processes

To boost efficiency and avoid manual errors and redundancies, many companies are automating their forms-driven supply chain processes, such as supplier account setup and maintenance. **SAP Interactive Forms software by Adobe** allows you to reach more internal and external users by helping you create online and offline interactive PDF forms.

You can find additional details about these three solution extensions at www.sap.com/solutions/solutionextensions.

* To learn more about SAP Invoice Management, see "If Your AP Process Is Paper-Based, You're Opening the Door to Internal Fraud: Ensure End-to-End Visibility and Audit Control with SAP Invoice Management" by Bil Khan on page 48 of this April-June 2010 issue of *SAPinsider* (sapinsider.wispubs.com).

successful, your technology should leverage the multi-stage model at an enterprise level by offering:

- Visibility across multiple ERP applications and planning systems
- Support for global inventory planning functionality for understanding inventory liabilities, maintaining service levels, and operating according to supplier and vendor-managed inventory business models

Leveraging data contained within SAP and non-SAP software systems, SAP Enterprise Inventory Optimization senses changes in demand, supply, and network alignment – and responds by providing dynamic, optimal inventory positioning. The offering provides a comprehensive, enterprise-scale process for optimizing, managing, and monitoring inventory stocking levels for finished product and raw material components at all stocking locations, in a multi-tier distribution or manufacturing supply chain.

Best Practice #3: Maintain Ongoing Visibility into Inventory Drivers

With continuous insight into the most granular levels of their supply chains, planners can identify forms and purposes of all inventories in the system and quickly and easily evaluate future planning scenarios.

Using SAP Enterprise Inventory Optimization, planners can explore questions related to potential changes in demand, demand variability, lead times, and cost, and they can target service levels either individually or together in terms of how those changes may affect the required inventory in the supply chain (see **Figure 1**).

In the end, these capabilities enable planners to optimize inventory levels throughout the organization, helping improve customer service levels while minimizing working capital requirements – resulting in increased efficiency and competitive advantage. The solution continuously incorporates the results of ongoing data analysis, helping identify forecast errors and biases so that planners can correct values and modify assumptions over time. With this flexibility, the solution supports continuous improvement and closes the loop on inventory management.

Learn More

Visit www.sap.com/solutions/solutionextensions/enterprise-inventory-optimization for more information on using SAP Enterprise Inventory Optimization to enhance your supply chain processes. ■