

The Link Between Inventory Management and Customer Service

Inventory management and customer satisfaction may be at opposite ends of the production pipeline, but they are intimately connected. Because of that link, inventory management is a vital tool in maximizing profitability.

The connection is a basic one. Your inventory determines your ability to supply your customers with what they want when they want it. If you can't do that, your customers will turn to your competition.

Measuring how well you're doing in meeting your customers' expectations isn't easy because of the importance of subjective perceptions in evaluating satisfaction. Tracking the right measures is a key step in evaluating your performance.

A Place To Start

An obvious place to start is the percentage of orders that you ship. But that can get tricky too. If you ship 96% of orders taken, does that mean you're satisfying your customers? Or does it hide the fact that customers are persuaded to order substitute products when you're out of what they really want? Or perhaps that they're getting the shipment a day or two later than promised?

To eliminate some of the ambiguity, defining your goals is essential. Measure only your performance in delivering stock items — products you stock as a matter of course that require no special ordering.

Be sure that computer lists and printed information make it easy for you, your sales staff and your customers to tell the difference between stock items and special order goods. Then take pains to make certain that customers ordering nonstock items understand that the products will take extra time.

Tough Standards

Set tough standards for tallying success in filling an order for a stock item. To give yourself a plus, require delivery of the full quantity of the exact product ordered on the promised date. Don't allow credit for substitutions even if they are made with the customer's okay.

Track all stock items ordered each week, on a single-item basis. If a customer orders 100 of a stock item and you are able to ship only 99 on time, give yourself no credit for that order. Measure the number of items ordered and delivered, rather than the dollar value of those items, to avoid distorting the picture with the success or failure represented in delivering a few expensive items.

Your score will be the number of correct items delivered on time as part of complete shipments divided by the number of stock items ordered, expressed in a percentage. If you have 10,000 items ordered and deliver 8,000 of them correctly, as part of a full shipment on time, your score would be 80%.

If your score is 90% or higher, work to maintain that level. If it's below 90%, look for ways to improve it. Computer records can help you analyze trends in stock-outs behind low customer service performance. The challenge is to identify the causes of the replenishment problems underlying these stock-outs.

Some of the possibilities are outdated forecasting data, inaccurate or outdated supplier lead times, failure to identify seasonal items for replenishment, an exceptionally big order for an item, computer programming errors or inaccurate computer data.

Eliminating stock-outs won't guarantee customer satisfaction, but it's a good start in meeting what experts see as the essential challenge of inventory management: getting the right amount of the right product to the right place at the right time.



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