

Third, let's evaluate what's possible.

A few years ago, at one of our local events, we had as a speaker one of the local television meteorologists. Though I couldn't fathom what this might have to do with Supply Chain, I went with an open mind and an interest to learn what I could. Then the unimaginable happened. I had a supply chain "aha moment" listening to a meteorologist.

She talked about arriving at the studio and the first task is to get an understanding of the current conditions. OMG, I thought. That's exactly what is missing for me. I need a way to see quickly, at a glance, what is the current condition of my inventory. Then I can easily prioritize my workload and I can prevent shortages and outages.

What if I had a gauge on each part number? Green, Yellow, Red. What if the colors indicated a type of warning system? Green (you're fine), Yellow (better react), Red (possible emergency), and Deep Red (Top Priority). Would this system work for purchased parts as well as manufactured parts? It sure seems like it would. We would have to set the alert level numbers based on some mathematical formula based on usage and lead time and a few other factors like variability and quality.

Could I use the same alert system to order purchased parts and schedule manufactured parts? If I could just determine a quantity that would trigger a purchase order requirement, I could then place the purchased parts orders. And if I could take into account some specifics to machines or work centers, I could also prioritize and schedule the machining operations. There might also be a way to prioritize between various replenishment signaling systems like Kanban vs Made to Order.

We would also reduce the bullwhip effect in utilizing this system. At the very least, the craziness caused by reacting to safety stock breaches as if they were actually stock outs would cease and thereby prevent the over-reactions in which we commonly participate. Could we also reduce our expedited freight costs and overtime machining labor costs? What would it take to achieve?

- We would need to strategically position inventory, reducing lead times to deliver finished goods.
- We would have to create profiles based on our lead times, our supplier quality and variability. These profiles would result in inventory based on safety stock, cycle stock and order quantity.
- The profiles will have to be dynamically adjusted, reacting to realities of customer demand and changes in seasonality or new product development.
- We must commit ourselves to orders generated based on the Demand Driven methodology.
- We would have to reorient ourselves to react to the timely refilling of the strategic buffer.
- We must measure something that relates to flow of product rather than machine utilization or piece price. We must use Smart Metrics to drive return on investment for the company.

A properly executed Demand Driven MRP system is the key for success in business. Attend our Certified Demand Driven Planner session to be prepared for the future.

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