Best Practices: Managing Stock Levels

A general understanding of Paladin's Market-Driven Inventory Management system will aid in achieving your inventory management goals:

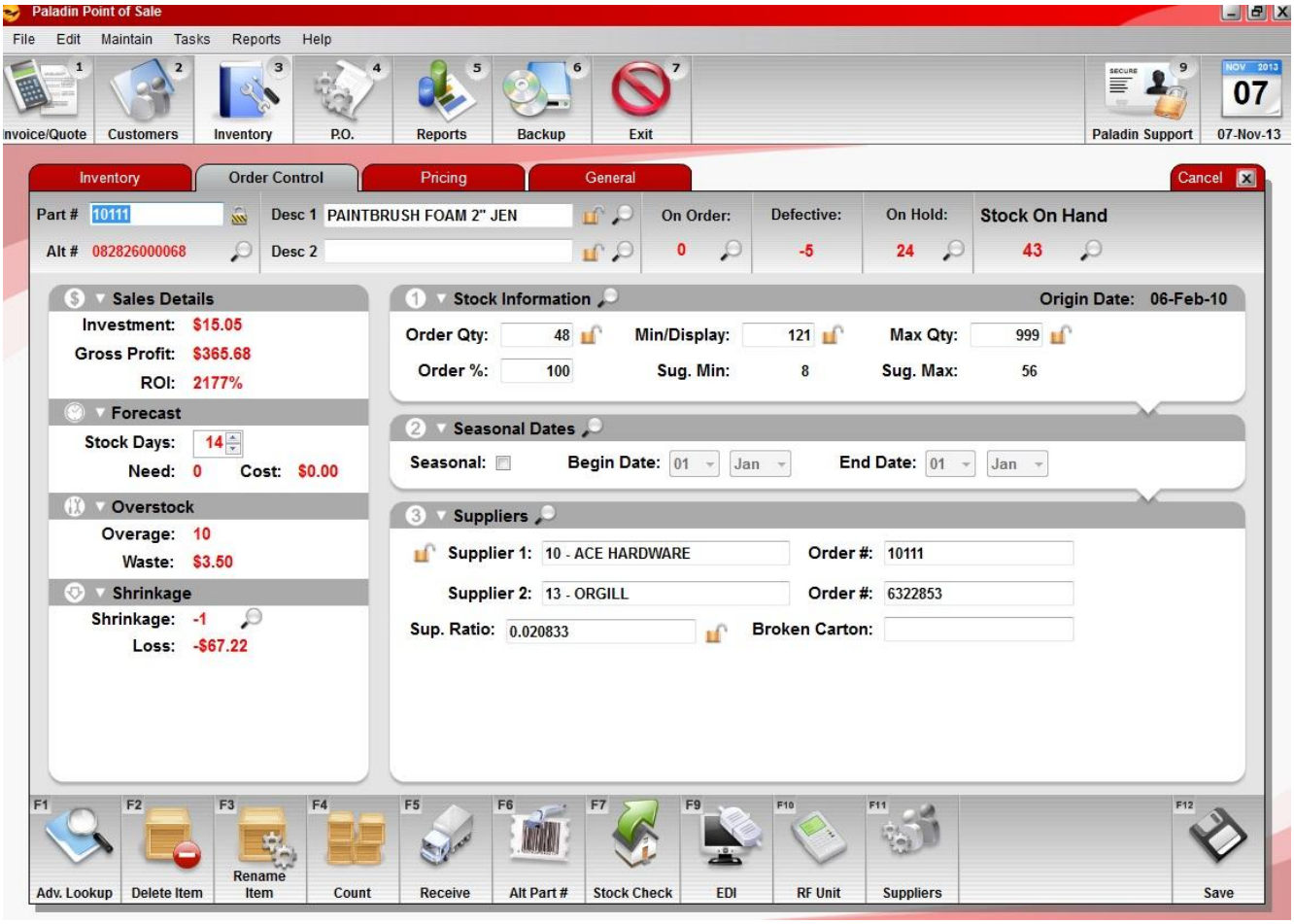
Paladin POS automatically adjusts inventory stocking levels up and down to assure the store always has just enough stock on hand for every item to meet any reasonable demand. Naturally, the automated results can be steered to best fit the needs of your store. The "steering wheel" used by Paladin POS powered stores is the Inventory Stocking Days (Stock Days) value. This number informs Paladin POS as to how many days of saleable inventory the store wants to own. A smaller number results in a lighter, tighter more aggressive ROI on your investment. A larger number results in more product depth, more capital invested and a reduced ROI. Most stores find 14 days of saleable stock a reasonable balance between the two extremes.

While viewing an item in the inventory module, generating a Suggested Order report or working in the Purchase Order section, Paladin POS uses the stated number of inventory stocking days to calculate exactly how much stocking depth is needed for every item reviewed. Since the Paladin POS Active Inventory Management system looks at every line of every invoice ever written, it knows exactly how many sell at a time, during what time of year and what other items are commonly sold with the item being reviewed. This massive amount of sales history results in an extremely accurate stock needs forecast. Paladin POS will automatically increase stocking depth on items moving into season as other product lines moving out of season have their stocking level reduced. No manual controls, settings or commands are required to achieve these results.

Paladin POS automatically maintains even difficult to manage inventory. Situations like job-pack quantities, high cost-low margin-low volume items and items with sporadic high sales quantities are all managed for you by the Market-Driven Inventory Management system inside Paladin POS.

The inventory module's Order Control tab contains many of the user accessible controls and tools for the Paladin POS Active Inventory Management system. Following is a brief definition of these fields and tools:

Order Control Fields



Forecast

Stock Days	Number of days of saleable inventory you wish to own. This box is a calculator. Change the number of stocking days to view the impact on Need and Cost.
Need	Number of items to order based on Stock Days set above. This figure is calculated by Paladin.
Cost	Represents the financial investment by your store to replenish this item.

Stock Information

Order Qty — Minimum order quantity allowed by the supplier. This value is automatically reset by EDI functions UNLESS the padlock is clicked locked. If the store maintains stock level in units of measure different from the supplier, this field must be manually updated AND the padlock locked. When an EDI update informs Paladin POS that the Order Qty is different than the # of Retail Units for this item, Paladin POS automatically performs all calculations and sets all values correctly. See further explanation of this situation in the Sup. Ratio description, found latter in this document.

Order % — This field is used to dynamically increase or decrease the number of stocking days for this single item. Default value is 100%. A lower number will reduce the number of stocking days this one item is stocked to (by the percentage displayed). A higher number increases the number of salable days. Order percentage can also be set for an entire department using the **PO system number-of-days %** on the **Dept** tab under **File > Setup**.

Min/Display — Quantity of Non-Salable items the store wants to own IN ADDITION TO the stock needs calculated. A Common use of this function would be to account for display stock. Paladin suggests a value of 0 in this field for items without display stock.

Max Qty — User-defined maximum number of items to be kept on hand. Paladin suggests a value of 9999 (essentially unlimited) for this field.

Sug. Min — Paladin POS calculates and displays the back-stock or safety-stock required to maintain adequate stock levels on this item every time you review the item. In most instances items with an Order Qty of 1 require no safety stock since the exact quantity required may be purchased. When Order Qty is a value greater than one, you will see the appropriate Suggested Minimum value displayed that will prevent out of stock events on this item.

Factors like sales frequency, job pack quantity, supplier Order Quantity, and risk of outage considerations are used in this calculation. Paladin POS will use Sug Min rather than Min/Display UNLESS the Padlock beside the Min/Display field is locked. Paladin suggests you allow it to use its calculated numbers.

Sug. Max — As with Sug Min, Paladin POS calculates the suggested Max Qty that sales could possibly need while supporting all ordering parameters. Just like the Sug Min field, Paladin POS will use Sug Max UNLESS the Padlock beside the Max Qty field is locked. Paladin suggests you allow it to use its own numbers.

Seasonal Dates

Seasonal — Check this box on items that can not or should not be considered for order except within the dates specified. Regardless of how great stock needs are, if today's date is not within the date ranges shown, the item will not be considered for stock needs calculation.

Begin Date — The month and day that ordering is allowed to begin.

End Date — The month and day BEFORE ordering is to be turned off.

Suppliers

Supplier — Displays the store's supplier number and name for the first two suppliers contained in the store's list of suppliers for this item. To edit these entries or add others, press the F11 Suppliers button. From this screen you may add suppliers, remove suppliers or change the displayed order of suppliers. Order of precedence has value in many ordering scenarios, for example you may use a different primary supplier for an item but still want ability to order the item from your warehouse on occasion.

Order # — If the primary Part # is not this supplier's order number, enter the correct order number in this field. Every time a Purchase Order is printed and an electronic order is transmitted, the supplier's correct order number is used.

Sup. Ratio — The value contained in this field is used by Paladin POS to CONVERT the supplier's units of measure to yours and visa versa. Typically this field displays a value of "1". When an EDI update informs Paladin POS that the Order Qty is different than the # of Retail Units for this item, Paladin POS automatically performs all calculations and sets all values correctly. An example of this situation could be an item with an Order Qty of 1, but # of Retail Units is 100. In this situation Paladin POS will:

- Set Order Qty to 100 (100 of the store's units)
- Update Avg, Mkt and Last costs on a per retail unit
- Calculate a Sup. Ratio of .01 (Ord Qty of 100 times Sup. Ratio of .01 equals an order qty of 1)
- Order Qty and Sup. Ratio padlocks will be left unlocked.

Broken Carton — Messages are presented here from Supplier's that support broken cartons. Paladin POS automatically chooses the best available Order Quantity based on satisfying customer demand AND maximizing the stores return on investment (ROI). Paladin suggests allowing Paladin POS to perform the job you purchased it to do and not fall into the trap of "if I buy more than I can possibly sell, I will receive a better margin". Yes, but fewer gross profit dollars and a lower overall ROI. See the Paladin white paper on Inventory as an Investment for more information on this subject.

Sales Details

Investment — Displays the amount of capital tied up in current inventory.

Gross Profit — Displays the total gross profit earned on this item from this moment in time back exactly one year.

ROI — This is the Gross Margin Return on Investment. It is calculated using the greater of:

- the amount of capital the store has in play to support the level of sales that are present. OR
- The amount of capital tied up in current inventory. This option is a result of the store being OVERSTOCKED on this item. Look at the Overstock window to view how much capital has been wasted.

A good ROI on every investment is how stores stay in business and support their families. While low ROI values are acceptable on a limited number of items, it is Paladin's suggestion that ROI's need to exceed 300% per year to be profitable.

All values displayed in Paladin POS are dynamic. Change the Order Qty, Order % or Stocking days, and view the SIGNIFICANT change to ROI. Use this screen as a calculator to understand the detrimental results of over buying.

Overstock

Overage — Based on the Stock Days selected, this value represents the unneeded, unjustified quantity of stock on hand. Notice as you change stocking days up or down, the Overage value changes.

Waste — Displays the amount of capital your business has invested in this item that has NO financial return what so ever. This was money that could have been invested in other product that could have sold and generated profit dollars.

Shrinkage

Shrinkage — Quantity of this inventory item that has been lost or gained in the period from now, back one year. Loss is displayed in RED, gains are displayed in GREEN

Loss/Gain — Amount of capital Lost or Gained in the last 52 weeks from Shrinkage.

Specialty Icons

Magnifying Glass — Click any magnifying glass icon to view the history leading to the results displayed.

Padlock — Clicking the Padlock icon allows you to block incoming EDI data from updating that field and/or prevent Paladin POS from using its calculated values based on current conditions.

Sales History

Sales History Table

Original Displays quantity sold of this item by calendar week for each of the last 52 weeks. The month labels displayed across the bottom of the graph are approximate locations for the months and do not correlate to the four week alternating color of the graph. The oldest four weeks from one year ago are displayed immediately to the right of the "Current Week" pointer. This helps bridge visual continuity from recent sales history to "what occurred last year in the next four weeks".

Adjusted Displays this item's "adjusted" sales history. Adjusted history is simply the Original history without results from advertised sales and user adjustments. Should your store have need to remove an unusually large sales spike, read the explanation below on Sales Figures for instructions.

Paladin POS Setup allows stores to define in Setup which sales history "view" will be used for their reports and Stock Needs calculations.

Sales Figures

Quantity Sold	This number represents the number of this item sold from this moment in time back exactly one year. Since all of Paladin POS statistics are dynamic, your store always has more than adequate history to base today's decisions on.
Sales Total	Total Gross Sales of this item from this moment in time back exactly one year.
Typical Qty	Everyone wants to know what quantity their customers purchase of this item at a time. Typical Qty displays this answer after looking at every line on every invoice this item was sold on for the last year.
Magnifying Glass	This tool displays every invoice this item has ever been sold on. Default sortation is to show the newest events first but all columns may be sorted. In the Sales History Table – Adjusted description we were informed that sales history can be user modified. This is where sales history can be modified (for reordering purposes only). A column labeled Adj Qty allows the user to input a value other than the Original Qty Sold amount. Perhaps this item experienced an untypically large sale and the resulting "spike" is causing inventory depth to be increased. Simply change the Adj Qty value to a reasonable number (even zero) and click Done. If Setup is configured to use Adjusted Sales History, your Suggested Order will no longer see or react to the spike.

Best Practices

Paladin recommends relying solely on the calculated order quantities for 95% – 98% of your inventory. Paladin's Active Inventory Management system will analyze vast amounts of past sales data to provide ordering recommendations that support current and near-term sales demands. The fewer item specific controls that are manipulated, the better job Paladin POS does at maintaining just enough inventory to meet sales needs.

We want everyone to understand that Paladin POS is DYNAMIC and Real-Time. A suggested order report generated mid day will differ from the same report ran in the morning. Paladin believes stores receive benefit from generating more than one Suggested Order Report in the order cycle. Since the time required to generate a complete Suggested Order is only moments, why not ask Paladin POS more than one question? Paladin suggests these steps be performed each order cycle:

Shoot Holes

Walk the store with RF units (set to overwrite inventory qty) looking specifically for out of stock items. When an empty bin or hook is found, enter or scan the part number into the RF unit. If the RF displays a stock on hand quantity other than zero, reset it by pressing the keypad 0 and pressing enter twice. This change in stock on hand is automatically recorded into the item's shrinkage history.

Review Exceptions

Generate a Suggested Order Report for the supplier you are working with. Use the default number of Inventory Stock Days defined in Setup. Don't create a working PO from this information. Sort by Extended Cost – Descending. Press F12 Run Report.

As the report resolves on your screen, the inventory items with the highest resulting order costs are displayed first. Review this first page carefully. Should you have questions regarding any of the displayed items, recall them to the inventory screen. Has an order parameter been set incorrectly? Has an unusually large sale not been identified as a special order or spike? You may account for this in the Sales Figures Magnifying glass, Adj Qty column (providing you specified in Setup to use Adjusted sales history).

Discard the displayed report once this review is complete.

Produce Sample Order

Generate another Suggested Order Report for this supplier using the default number of days. This time check the box beside "Create working PO from this data" and provide a PO Name that you will recognize latter. No sortation option is needed; the report and PO will display in part number order.

As the report once again is displayed, jump to the end of the report to view the Order Total amount. Is this close to the amount you budgeted for this order? If yes, review the suggested order in greater detail and proceed to the Purchase Order section to send the PO.

If you have personal knowledge of events influencing your purchasing decision (weather, politics, cash flow etc) and you believe your order should be larger or smaller than what was suggested, ask for another Suggested Order Report for a few more or less stocking days. This action still covers stock needs for all items in your store. Notice that some of the suggested order items and quantities didn't change. Others increased / decreased or may no longer be displayed on the Suggested Order report. Controlling the number of Inventory Stocking Days allows you to tune the order to exactly meet the needs of your market and investment requirements.

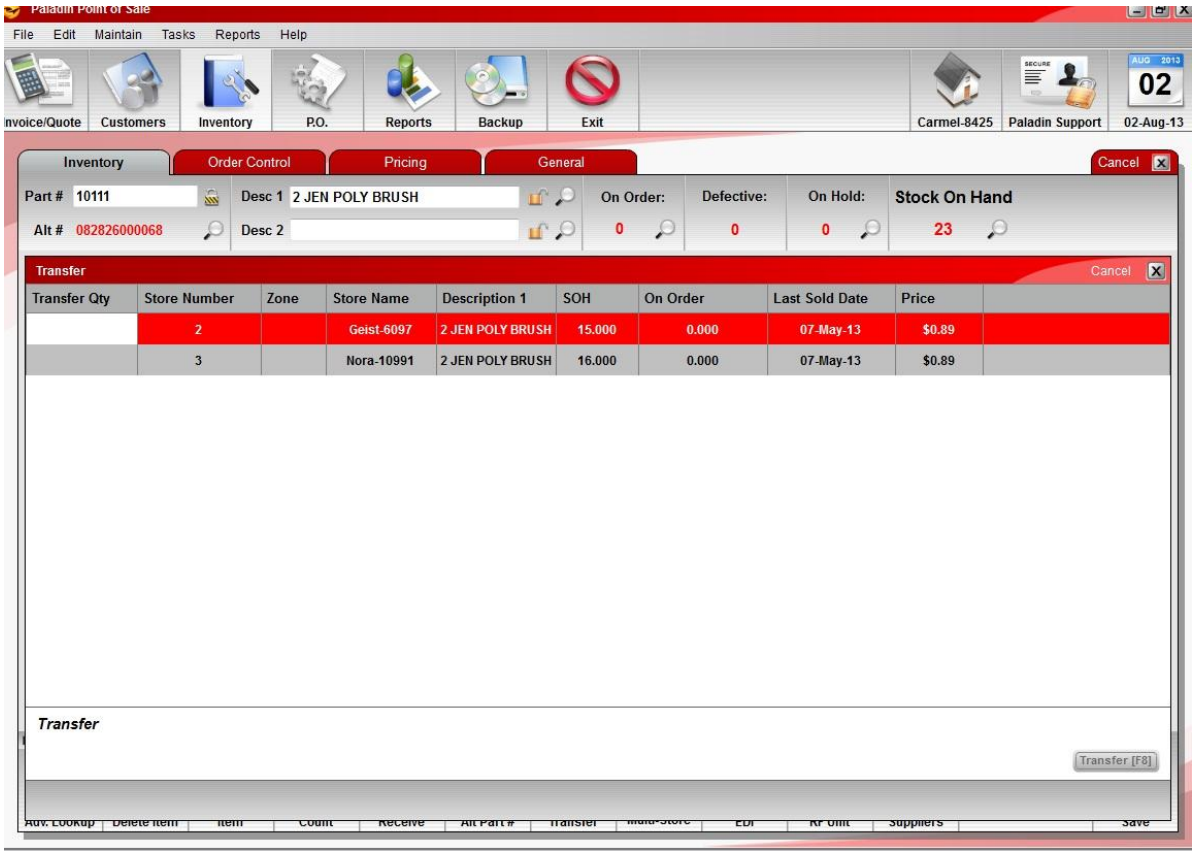
Transmit the finished order to the supplier as early in the day as possible. It is supremely beneficial to have this task completed early. DO NOT wait until moments before order cut off time to send your order.

Clean-up Order

If your order was originally generated (and sent) early in the day, generate another Suggested Order just before order cut off time. This will catch anything sold since your original order generation time. Stores that receive only one order per week can really benefit from this last minute clean-up order to reduce the number of "outs" without significantly increasing the amount of capital required.

Multi Store PO Tip

Everyone running Paladin's Enterprise class Multi-Store version of Paladin POS have an amazing tool embedded into the purchase order screen. Highlight any line of the PO and press F7 Transfer. A window is displayed that details stock levels in all stores of the enterprise for this item. The user may identify quantities of product to be automatically transferred from other stores within this window. When the window is closed the original order quantity has been automatically reduced by the total of the transferred quantity. As the PO is completed and transmitted to the supplier, all pending transfer PO's are automatically completed, transmitted and pending credit PO's are generated for the distant stores.



Paladin POS isn't likely to stock your store as deep as older, non dynamic systems did. This is a very good thing. Why buy product you can't sell? Regardless of the anticipated margin, product that doesn't sell doesn't generate ANY margin.

Exceptions to the rule

Occasionally, an item or group of items requires a greater stocking depth than sales history alone justifies. Paladin has five unique methods to help the store achieve this goal.

Method #1: Testing market demand with larger quantities in stock

To determine if a larger market demand would be present if the store had the stock on hand to support it, perform a one-time manual purchase of a larger quantity of the items and place the stock where customers will see it. If that larger quantity triggers new buying habits, Paladin will recognize this new trend and automatically maintain stock levels to retain this new sales opportunity. Do not change any inventory control settings or parameters.

Method #2: Items of significant value to store image

Items that represent significant value to the store's image may need to be stocked to a greater number of Inventory Stocking Days than 'normal' inventory. To achieve this, increase the item's **Order %** value from 100% to a higher value. This allows a potential increase in stocking depth while maintaining dynamic stock controls. *For example, if **Stock Days** is set to **14** and **Order %** is set to **150%** on this item, Paladin's suggested ordering will use 14 days * 150% or 21 days for the number of stocking days.*

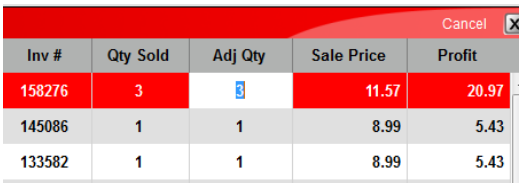
Paladin automatically boosts stocking levels to accommodate high order multiples (Order Qty), but increasing stocking days could still allow stock levels to drop before the next large (as compared to sales) order multiple can be purchased. If this is places your store at risk, use Method #3 shown below.

Method #3: Declaring display stock

Set and lock the **Min/Display** field to force additional stock depth to items that require a greater "display" presence than the salable stock alone provides. Paladin POS stock needs calculations will use the store's **Min/Display** level rather than the calculated Sug. Min levels. All stock needs calculations remain the same, but the resulting stock on hand will be the calculated stock needs PLUS the min/display amount. Any value set in this field is not subject to dynamic control by sales performance or seasonal demand, so care must be exercised to avoid overstock.

Method #4: Modify historical sales trends

Provided Paladin POS has been instructed in your store to use Adjusted Sales history for ordering calculations, stores may increase or decrease stocking depth by adjusting an item's sales history. While this method is normally used to cause Stock Needs calculations to skip unusual or high quantity sales, it works equally well to increase stock levels. In the *Sales History* viewer, each item sold has a value for **Qty Sold** and **Adj Qty**. These values are typically identical for anything not on sale. Adjusting the **Adj Qty** field up or down modifies a small piece of data Paladin POS will use in Order Calculations. allows Paladin to use that value for stock needs calculations rather than the actual quantity sold. The **Adj Qty** field is used by Paladin to automatically exclude items sold under a Sale List.



Inv #	Qty Sold	Adj Qty	Sale Price	Profit
158276	3	3	11.57	20.97
145086	1	1	8.99	5.43
133582	1	1	8.99	5.43

Method #5: Forced stock levels

For those few items that require a specific stock on hand quantity regardless of season or demand, Method #5 is the correct tool to use. Stores may set **Min/Display** to one less than the desired stock level and set **Max Qty** to the desired stock level. Lock both field's padlocks. This forces Paladin to use the store's values rather than calculating dynamic values based on sales history. As soon as stock levels drop to a point where one order multiple plus existing on hand plus on order quantities will not exceed the **Max Qty** value, the item is ordered.

Method #5 is the least desirable of all methods listed because it defeats all dynamic controls on the item. But in cases where a specific quantity on hand is desired regardless of customer demand, this method easily achieves this goal.

Paladin suggests that the fewer controls placed on inventory items, the better the job Paladin POS does at maintaining just enough stock depth to meet sales needs.

Paladin also suggests booking refresher or "tune up" training sessions with Paladin Training to better understand and utilize the features and capabilities present in Paladin POS.