CIPS KNOWLEDGE

Managing aged and obsolete stock

Managing stock efficiently minimises obsolete stock supporting how we can bring down costs.

This knowledge paper is supportive of Procurement professionals operating at operational level of the CIPS Global Standard

01 CPD HOURS

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Managing aged and obsolete stock

Organisations are constantly under pressure to become more profitable. The objective of every company is to source goods and services as efficiently and cost-effectively as possible. The underlying principles of procurement are:

1. **The right quality**
   Sourcing goods or services that are both acceptable and fit-for-purpose
2. **The right quantity**
   Ensuring sufficient quantity to meet demand and maintain service levels while minimising excess stock holding
3. **The right place**
   Receiving goods at the specified place correctly packaged and in mint condition
4. **The right time**
   Delivery of goods is at the right time to meet demand without incurring inventory holding costs
5. **The right price**
   Ensuring all the above at a price which is fair, competitive and affordable

Managing stock efficiently applying these principles minimises obsolete stock which is how we can bring down costs.

What is stock optimisation?

Stock optimisation (also known as inventory optimisation) is the art of achieving stock availability while reducing inventory costs and minimising the risk of holding excess items.

Stock takes up valuable warehouse space and ties up capital. There is a trend in the consumer market where more choice is causing an increase in inventories. This is especially seen in fast-moving consumer goods (FMCG) and the retail industry.

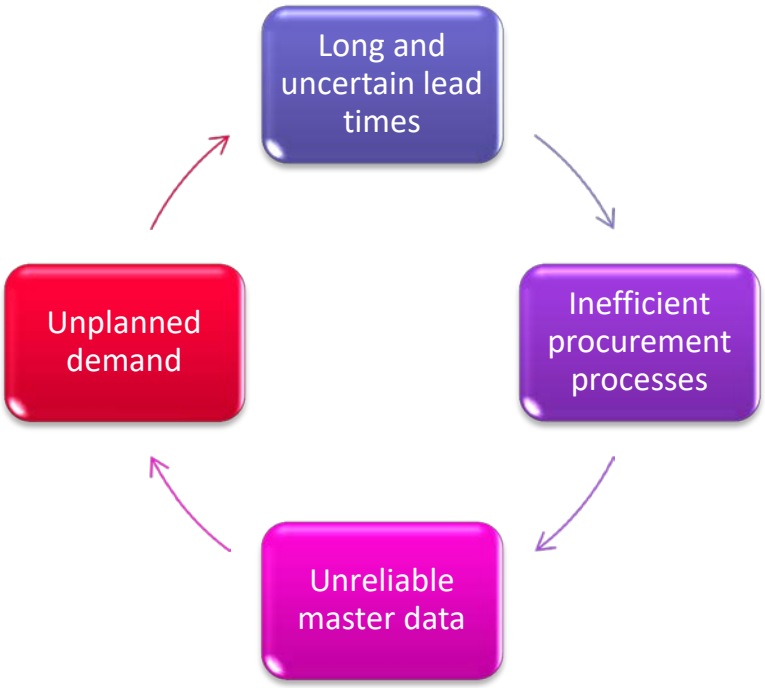
"Fast fashion", i.e. inexpensive clothing produced rapidly by mass-market retailers in response to the latest trends, can result in obsolete stock.

The challenges are many:

- **Overstocks** can be due to poor data or outdated processes
- **Stock-outs** are mainly due to poor inventory management and errors in forecasting
- **Safety stocks** how much is needed
- **Long lead times** may result in excess stock that never sells
- **Erratic and unplanned demand** again can be due to poor forecasting

These problems are compounded where usage information is unreliable due to the poor quality of master data, transaction records and through inefficient procurement processes.

Main complexity factors for limiting obsolete stock



Stock can be regarded as obsolete when it has reached the end of its useful life. This is typically when there are no sales and no forecasted future demand for that specific product or the product is set to be superseded by an upgraded version resulting in the need for a phase-in phase-out process (PIPO).

Unfortunately, stock obsolescence is often managed retrospectively rather than proactively, resulting in unusable stock.

Procurement issues

Procurement teams are often held accountable for the non-availability of stock.

The suppliers may be too few or too many and service level agreements not adhered to, or even non-existent, resulting in inefficiencies and waste. Sometimes overly complex procurement systems and misaligned processes can also negatively impact the stock situation.

Regional procurement activity may be pre-defined by a global head office who establish safety stock levels and the use of pre-approved preferred suppliers for each stock keeping unit (SKU), however this advice may conflict with the realities and practicalities to meet regional variances required to each SKU.

Different performance objectives and misalignment between procurement, finance and operations could lead to high procurement costs, inefficient use of warehouse space and excess stock holdings. Good inter-departmental communication and cooperation are essential for the right data flow in order to support stock accuracy.

Causes and remedies

Inaccurate forecasting

Forecasting demand is a major factor in whether you'll have obsolete stock or not. Best practice is to pay attention to sales trends from past years and pay attention to what your competitors are selling and how well they're selling it.

No reorder levels

Setting an accurate reorder point will help you predict the right time to order more stock and how much to order. It will also help you understand your current rate of inventory turnover and should give you insight into how to increase it.

Inadequate inventory management

Inaccurate stock records can really hinder the re-ordering capability of the procurement team, as stock inaccuracies do not allow clarity on much stock is currently available to meet demand. Manually tracking and planning your company's future orders then becomes error-prone and time-consuming.

Most companies use an inventory management system (IMS), often cloud-based, which limits the chances of having obsolete stock. An IMS provides real-time visibility of stockholdings. Using an online dashboard, users can see, at a glance, exactly how much there is of each product and where it is all located. Keeping track of thousands of product lines at multiple locations is impossible manually using spreadsheets.

Long lead times

Long lead times increase the amount of buffer stock you need to keep on hand. Shortening lead times will prevent obsolete stock risks by improving the accuracy and timing of purchase orders to consumer demand.

Ignoring the problem

Expecting dead stock to sell as your storage expenses pile up is far from efficient. Put a stock management plan in place, as "Cash is King" it is important that you have sufficient stock turnover to keep your product range fresh and aligned to consumer demands.

Seven ways of disposing of obsolete stock

- Return to the supplier for a refund or credit
- Divert the items to make new products and remarket
- Discount the product and sell at a reduced profit level
- Bundle with other unwanted products and sell as a "job lot"
- Write it off as scrap, you may be able to break down component parts for selling or recycling
- Auction it
- Donate it

It is a delicate balancing act to ensure product availability while reducing inventory costs and minimising the risk of excess stock and obsolescence. Companies that focus on demand forecasting, having accurate data, smooth procurement processes and recognising the problems early will be best placed to limit their obsolete stocks.

Author

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