Order Point Strategies

In previous modules, you've learned that you can use Order Points to achieve optimal stock levels and by now, you should have a basic understanding of how Order Points are calculated through the use of the Order Point Report. If you haven't yet viewed these modules, I'd suggest that you do so before continuing since today we'll be focusing on various Order Point Strategies that can be utilized to attain inventory stocking levels that will optimally meet consumer demand for your inventory mix.

As you know, the order point is the value at which you should reorder product. This is store-specific and is based on the sales history of an individual store location.

Typically, you'll want to order when an item's stocking level falls below the order point, but you have the option of setting Eagle to place an order when an item's quantity is at its actual order point if you are migrating from a system that uses this guideline, such as Ace dealers who were using Pace. This is controlled through Option 8115.

As we progress through this module, we will discuss the strategies and timing recommended to calculate order points. Applying the best strategy for your system will result in order points that represent the best stocking levels for your store based on sales history, current stocking level, seasonality and lead time.

Let's turn our attention to some Order Point Strategies.

Topics

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Order Point Calculations

Your goal in determining strategies for Order point calculation is to shrink the gap between supply and demand for products. If this gap is not tightened, you could be left with overstock which might eventually lead to dead stock. Dead stock is something we want to avoid, of course.

The sales history for an item, which is captured by Point of Sale and can be found on the IMU History tab, is utilized to calculate the Order Point.

To calculate the Order Point, the ROP report uses the following calculation:

- Units sold, divided by the number of weeks in the month used for analysis gives the average units sold per week.

- Next, the average units sold by week is multiplied by the weight % given to that particular month.

- Then the total weighted average units sold per week is multiplied by the weeks of supply wanted on the shelf.

- The final result is the system calculated order point.

This calculation is strictly mathematical, and you can affect it by weighting certain months differently or by increasing or decreasing the weeks of supply carried on the shelf. The higher the weeks of supply, the higher the order point. What we want to achieve is good turns and a reduction of overstock. Different Order Point strategies can help you accomplish this daunting task.

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The most common use of the Order Point report (ROP) is to use it in conjunction with Product Analysis (RPA), ultimately leading to a weekly Suggested Order (RSO). Let us first define the options for running the Order Point Report.

Order Point Strategies

We will be discussing method 3 in this module. First of all, typically the Order Point report is spooled with totals only after you become familiar with the report. The Options Screen allows the finalizing or setting the Order Point by using Option F. Also, Promotional history can be excluded, but from my experience most products have a similar promotional life cycle. So E is typically not chosen. The minimum order point should be set to 0 so option C should always be used. This will allow the order point to be recalculated for items currently carrying a 0 or 1 Order Point.

As the sales history begins to pick up, this is necessary. Option B gives a more realistic total based on when the item was added not as if it were carried for the entire year. Also new items can be excluded until they begin to turn on this page.

The from and to section should be left blank to pick up all items, however, it can in fact be used initially until you become familiar with the calculation.

The code selection Screen can be utilized in conjunction with product analysis leading to different weeks of supply. As mentioned earlier, we will be using method 3 and lastly,

The Order Point Weights screen will be used to pick what months you want to weight. The best option is to queue this report weekly as the months are rolled automatically.

The 4 most commonly used and effective strategies used for Order Point Calculation are Weekly Orders, Seasonal Purchases, Dated Orders, and Market Orders.

Weekly Orders can easily be attained by setting up Product ranking and Order Point Reports in a weekly queue and running Suggested Order Reports a day or two before your orders are due.

With this strategy, Product Ranking assigns a popularity code to your inventory mix based on how the item is moving in your location.

Once products are ranked, the Order Point Report can be run with different options based on different popularity codes. For instance, you can assign a higher value for weeks of supply for those items with the highest ranking Popularity Code, then run the ROP again and assign lower values for Weeks of Supply to the least popular coded items.

Using Seasonal Orders is another effective strategy because tools are available to control which items the RSO picks.

PO Season Codes can be used to limit items the Suggested Order Report includes.

Order point calculation can also be set to base calculations on sales during a specific period. When used correctly, the Order Point Report is really only calculating for the current season and the same season last year. So as seasonal demand picks up for an item, the Order Point will increase.

Another Strategy is for Dated Orders. With this strategy, the optimum scenario is to sell down certain products before it is time for payment based on the dated terms for that vendor's particular order.

Use the Order Point Report to calculate the purchase needs for the period of time you have to sell the product before the payment is due. Then use an IMU viewer or a Compass Analytics Query to determine how many you sold versus how many you need to buy. This will allow you to determine how attractive the dating terms are when minimum purchases are part of the vendor's terms.

The Order Point Calculation can also be used to buy merchandise at a Buying Show or Market.

You have the ability of calculating the order point based on the seasonal market in which you are participating.

Typically, you buy Fall Merchandise at a Spring Market and Spring Merchandise at a Fall Market.   Captured Sales history will help guide you in this buying decision. [Should more information be provided here to show how OP calculations would help?]

Based on our experience, it can be somewhat difficult for Buyers to rely solely on a computer system to suggest order quantities when they are used to trusting their experience.

If you feel this way, I'd encourage you to try setting Order Points on a specific department to see the benefits. I'm sure that as you gain more experience with this method, you'll want to expand the process to include your entire inventory mix. And with the strategies that we've discussed today, you'll have the tools to do just that.

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