

Learning Without Scars

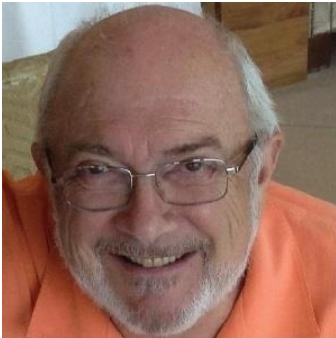
Quarterly Newsletter

Dynamic Internet Based Learning
TRAINING SOLUTIONS FOR EQUIPMENT DEALERSHIPS
Construction • Mining • Agriculture • Cranes • Trucks • Trailers

The Parts Business

Fall 2022

Parts Inventory in these Troubled Times By Ron Slee



Ron is a third-generation educator and it is easy to say that teaching and training are in his blood. From his beginnings as a coach, through his time at McGill University, Ron developed a foundation for the work he does today.

Ron began his work in the Capital Goods Industry in Canada, finally establishing his consulting business, R.J. Slee and Associates, in 1980. The company moved to the United States in 1983, and has continued worldwide ever since. Ron has been known as the industry expert for years, and has brought this expertise to bear through his training programs.

Today, Ron provides specialized, job function based online training classes, skills assessments, seminars and webinars. These courses are designed for manufacturers and their dealers, as well as independent businesses in the construction equipment, light industrial, on-highway, engine, and agricultural industries through Learning Without Scars. This platform is a continuation of the work begun by Quest, Learning Centers which was established in 1996. This training is aimed at improving dealer parts and service operations through qualified people that are knowledgeable in using operational metrics and current market and operational best practice methods. There are more than one dozen different Skills Assessments and more than 90 individual classes available today. These courses and assessments cover the many job functions and leadership roles within the Capital Goods Industry, designed with the highest of standards. Learning Without Scars will continue the legacy provided by Quest which has conducted parts and service training for parts and service management and supervision for Komatsu, Volvo and Charles Machine Works (Ditch Witch), to name just a few.

Ron has appeared as a keynote speaker for Caterpillar, John Deere (Industrial and Agriculture), various agricultural associations and construction equipment associations, as well as the National Trailer Dealers Association and the National Truck Equipment Association. He also conducts market research for the industry and has written numerous articles on pertinent subjects relating to market penetration, productivity and dealer profitability, including monthly columns in the Construction Equipment Distribution magazine and Water Well Journal and other manufacturers publications, i.e. "The Supporter" at Volvo. Sitting on advisory and fiduciary boards round out Ron's business activities

Ron and his wife Marlene call Hawaii home today, with many visits to family in California.

As you look at supply chains today you have trouble understanding what you are seeing. Supplies coming from single sources rather than multiple sources. Transportation Logistics choked up at ports of entry. Government regulations at ports that impede a normal flow off a ship, onto a truck to get to their final destination. Just in Time Inventory Management Systems that were designed for more predictable supply causing "backorders" that slow down and at times stop manufacturers from providing finished goods. It really has become a "mess."

I have worked around inventory management since 1969 and during these fifty-three years I have never seen anything like what we are living through at the moment.

However, we still have to deal with some fundamentals.

We continue to be living in a world of the Poisson Statistical distribution curve that show more than 86% of the parts we sell coming for those parts that sell twelve time a year or less.

Demands	\$0.01 - \$1.00	\$1.01 - \$10.00	\$10.01 - \$100.00	\$100.01 +	Total
0 - 12	23%	28%	28%	7%	86.00%
13 - 24	2%	2%	1%	0%	5.00%
25 - 48	2%	1%	0%	0%	3.00%
49 - 60	1%	0%	0%	0%	1.00%
61 +	4%	1%	0%	0%	5.00%
Total	32%	32%	29%	7%	100.00%

This distribution of activity shows us how vulnerable we are to supply chain disruptions.

For more than forty years, from the early 1980's we have had a relatively easy time to manage inventories. Lead times have decreased, from order date to receipt date. Supplier availability has been in the high 90% range. Inflation has been tame, within a narrow band between 2% and 4% over the same period. Interest rates have been equally a stable. Life has been quite easy, hasn't it? That is clearly no longer the case. Depending what measure you study, inflation has topped 10% and held there for some time with no end in sight. Interest rates are in a steep curve upward rising 0.75% each change. Factories have been shut down due to Covid. Availability of critical items has dropped to dangerously low levels. What should we do?

You are in a bit of a trap aren't you. You can improve availability by doubling your stock for the slow-moving parts. That is a large investment to make. That would also be difficult as the interest rates are significantly higher than normal.

Another angle is that when you sell the last one of these parts you immediately place a stock order to your traditional vendor. You don't wait for the next stock order cycle. You ACT immediately. If the OEM is able to supply you have avoided any trouble. If they are not able to supply then we have to engage in serious expediting and potentially even purchasing activity. This is all done BEFORE a customer backorder is created.

In our subject specific class on purchasing and expediting we lay out the steps and the plan for expediting. Typically, an OEM dealer parts inventory management job function does not do any expediting except in those rare cases where a particular machine with a particular customer has a problem with a parts order that keeps their machine from working on the job. The typical response from most OEM dealers is to just wait for the part to come in. In my world of inventory management, as many of you already know, that is not acceptable. My goal is always to find every part that every customer has ordered and respond to them about where you have found the part the same day as the day, they ordered the part. To me that is what our job is – “find every part that is ordered and respond to the customer with where the part is available and then ask how the customer wants to have the part shipped.

The usual “alert chart” on expediting should include your OEM by placing an emergency order to see if there is any stock available there that is not available to the stock order process. your other stores, then your sister dealers nearby, then to search dealers everywhere. The OEM's have cut offs on order categories. Stock Orders are processed first depending on availability. If there is a “low stock” condition then stock orders are stopped. Emergency orders are still processed at that time. If this is truly a critical machine down situation then an emergency order.

Don't forget that so far, a customer is not involved. They don't know we have a problem at all.

The next stage for an OEM is the stock that is required to support the assembly line. When the quantity available reaches a certain point then emergency orders are stopped.

My approach during these supply chain issues is to change the way we act. We get on our toes and treat every situation as an emergency that deserves special treatment. I grew up and was conditioned by the Caterpillar family. When the market was soft or going through disruptions, I was taught that those times were when you built up market share by exceeding the expectations of the world within which you were operating. When the market softened up and business went down, we added sales people when others were reducing. We also went out of our way to ensure that we had the very best service to our customers. You are only able to do this when you operate at very high

levels of performance. Our performance metrics were very serious business. I often relate a story about finding every part, every day, back to when I was working in Vancouver. Caterpillar had a strike for a number of months. We had fifty-three stores at the time and as a group we committed to finding every part our customers ordered before the sun set on the day. That is where I started the find every part routine. If my memory is true, we had only one part we couldn't find within our time goal and it was a lift truck part in our Kamloops store that was for a very old machine. Customers actually wrote letters praising

At Learning Without Scars, we understand the importance of being inclusive and offering education opportunities to everyone, especially those with a hearing impairment.

We are now in the process of updating the video segments of our online Service classes to include Closed Captioning. We will continue this process with Parts and Sales & Marketing in the coming months.

our efforts. We worked hard to achieve the goal and we were rewarded.

I believe that the same will be true today if we sit down and evaluate what all the steps are that we need to take to exceed everyone's expectations.

Get your parts team together outside of normal hours and talk about it. You will find great ideas start popping up. Make a list. Assign responsibility. Communicate like maniacs. Then get to work.

That means that you will be in a position to identify trouble BEFORE it happens. Check your fast-moving parts every day that you have a sale of one of them. Remember one of the reasons for backorders, and we found that in the backorder analysis didn't we, was records not being accurate.

One of the things that I like to do is every morning get a report of every part which had their on-hand quantity go to zero. Go out to the bin and verify that fact. If it is true, then make a judgement call. Is this a part that will keep a machine from being able to work? If the answer is yes, find and order some of those part numbers. Avoidance of a backorder is a good thing in these times. I am hearing of parts that cannot be obtained for more than six months. If that is a critical part, you are in trouble. What is an alternative? Make a special deal

on a rental machine. Whatever it takes to satisfy the customer. Never forget we are in the business of keeping equipment working so our customers can get their jobs done and make money.

A key element in managing your inventory is that you should never have parts on hand that have not met your stocking rules. What I call non-productive parts. Of course, you will have protective parts but if it is Not a protective part and it has not met your stocking rules why do you have it. This allows you to have a high inventory turnover in normal times which gives you a high return on assets. If you have a gross margin of 30% and a turnover of 6 times a year you have a return on inventory of 180%. That will allow you to have the inventory on hand that you need to have in situations like this of a challenged supply chain. Remember what I said at the outset. Slow moving parts are more than 85% of the part numbers we have in our inventory. If they are parts that will keep a machine down then add them to your inventory in troubled times like this. Customer service is KING. Not just now, always, but particularly now.

One other thing I would like you to bring back to life is the backorder analysis. When times are good, we tend to discontinue things that we shouldn't. The Backorder Analysis is one of those things.

The backorder analysis is a means of determining how and why backorders occur. The objective of this study is to provide guidelines and procedures that will maximize inventory service level.

Backorder Categories

- a) Stock Items
- b) Non-Stock Items

Contributors to Stock Backorders

- a) Abnormal Demand
- b) Factory Shortages
- c) Delayed Ordering
- d) Inaccurate Minimums
- e) Inaccurate Minimums
- f) Warehouse Discrepancies
- g) Picking Errors
- h) Customer Convenience

Customer and Service Department Orders are reviewed for back orders. We must keep in mind, however, that some level of expected stock shortages, backorders, is necessary due to the cost of inventory.

Customer and Service Department Orders are reviewed for back orders. We must keep in mind, however, that some level of expected stock shortages, backorders, is necessary due to the cost of inventory. Once, however, this has been accounted for, procedural and system inadequacies still cause shortages. Qualification of the avoidable back orders through procedural and system changes is an important result coming out of this study.

Non-Stock Backorders

We are always going to have backorders for one reason or another. Parts that you don't carry in your inventory is a simple decision. Is there enough demand to warrant the investment or not. Yet we still have to be alert to specific situations. Nonstock parts are always going to be present and some of them we can put into a specific category.

- a) Product Improvements
- b) Territorial Equipment Changes
- c) Growing Machine Population
- d) Abnormal Demand
- e) Normal Stocking Items

The Nonstock to Stock transition rules are another very critical area to stay on top of if you want to provide good customer service. Nonstock activity causes will allow an analysis of how well the material transition rules fit the particular business.

The management of inventory is a story of details. Nothing is very difficult to understand intellectually, however, there are a lot of details and they tend to tie into each other. Make a mistake in one aspect of the work and it will hurt you in other areas. This reminds me of a story that is told about Michelangelo when he was painting the Sistine Chapel. The Pope of the Catholic Church at the time was named Leo. He used to walk out into the Chapel as Michelangelo was working and call up to him in the scaffolding and ask him when he was going to be finished. Michelangelo always answered "When it is finished." One day the Pope came out in a hurry and called up impatiently and asked Michelangelo to come down, that there was a problem. Wiping the paint of his face, he was painting on his back, he asked Leo, "What is wrong?" To which Leo replied "You left our God." Michelangelo sighed and said "Leo, God is in the details."



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Learning Without Scars provides comprehensive online learning programs for employees starting with an individualized skills assessment. These assessments allow us to then create a personalized employee development program. From their assessed skills, the employee is asked to select from classes designed for their skill level which allow them to address the gaps in their knowledge level. This allows the employees to move through four progressive categories of learning: Basic, Intermediate, Advanced and Expert.

Class References

[Basic Inventory Control](#)
[Purchasing & Expediting](#)
[Buyers Needs](#)

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Do You Know The Answer?

What heavy lifting specialist company built the largest crane in the world known as "Big Carl"?



Learning Without Scars is a fully accredited provider of continuing education through the International Accreditors of Continuing Education and Training. IACET accreditation sets us apart in our field as we are the first and only education provider to hold outside accreditation. All students will

receive CEUs when they take a course through Learning Without Scars.

Educational Resources

All of the resources listed below can be found on our website : www.LearningWithoutScars.com under the Resources menu.



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This quarterly newsletter is offered for free. Please visit our website to sign up to receive industry specific information in areas such as parts, service and sales. We highlight some of the issues people face in their jobs. We ask that you share this newsletter with your peers.



We created a list of recommended books that have come across our table and that we thought you would enjoy reading. They are sorted by category and cover a wide range of topics to enhance your knowledge.



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Lectures are hosted by us as an additional learning opportunity. The lectures are created by an assortment of experts from the professional and academic disciplines; covering topics such as Customer Service, Operations, Selling, Leadership, Finance and Marketing.



Your opinion is important to us! We are always looking to help people through engaging material. If you have a question or a specific topic you would like us to cover in a future newsletter, please email Ron ron@learningwithoutscars.com