

## THE IMPORTANCE OF EXCESS MANAGEMENT

Even the leanest service supply chains are faced with the challenge of excess. Whether it's created by over-ordering, bullish forecasts, or other market factors, excess inventory creates a supply chain cost that all planning organizations face today. In addition to the loss of working capital, carrying costs associated with excess inventory erode profits and represent an expense that will grow every quarter if left unchecked.

The complexities of excess management are magnified in the service supply chain where contractual obligations of rapid-response Service Level Agreements (SLAs) with penalties means inventory availability is crucial. The unique combination of low volume, high mix materials and the challenge of planning inventory to support installed base 5-7 years after production has ended has implications on end-of-life and last-time-buy activities. On top of all this, the after-market sector must consider part supersession requirements as well as scrap and resell alternatives when managing excess.

Successful excess management aligns the identification of excess inventory with an effective disposal program to enable service supply chain organizations to run a leaner, more agile supply chain.

## EXCESS MANAGEMENT WITH PROPHET

Best practice excess management starts with aligning Prophet's excess definition parameters with your company's particular business rules regarding the definition and declaration of excess. The configuration of Baxter's customizable Excess report to comprehend your company's operational view of excess allows for the proper identification of excess material that can be utilized, sold, or scrapped to achieve inventory goals.

Prophet's excess equation can be mathematically represented as:

### **Excess = Current Inventory – Target Inventory – Extended Demand – Material Exclusions**

- Current inventory is the sum of on hand and in transit inventory with configuration options available to either to include or exclude purchase or repair orders from excess consideration.
- Target inventory is the sum of target stock levels and expected defective inventory with customizable buffers available to reserve additional inventory.
- Extended Demand Forecast effectively reserves inventory to cover future requirements of a material over the course of its support life and there are two available methods, End of Support Method or Forecast Method:
  - The End of Support Method extends demand forecast by trending the monthly demand forecast towards the End of Support date down to a specified percentage.
  - The Forecast Method extends demand forecast by multiplying the monthly demand forecast by a specified number of months which can differ by purchase vs repair.
- Material Exclusions can be established to identify materials that have recently been added, purchased, or accrued demand so that recent last time buy materials and inventory purchased in support of recent new product introductions are not deemed excess.
- Finally, the report comprehends part supersession, or chaining, requirements to prioritize an outdated material as excess ahead of any substitute materials.

In addition to the highly configurable inputs of the excess equation, Prophet's excess reporting supports the definition of multiple sets of regionally-configured excess inputs known as run groups. Different run groups will often contain unique sets of inputs for various excess calculation scenarios such as aggressive vs conservative or 1-year vs 5-year.

From here, the Excess Scrap Detail report is used to view scrap suggestions based on the excess calculation output and allows your company to action excess inventory through excess deployment or excess scrap. A series of logical rules is used to determine which location material excess should be scrapped from. For example, the scrap rule sequence can be configured to prioritize defective inventory and stock with no forecast or to scrap based on location type such as field sites or technicians.

## **EXCESS MANAGEMENT EXPERTISE WITH BAXTER**

Baxter's Best Practice Scorecard exemplifies a commitment to helping customers optimize and automate their service supply chains. Baxter has leveraged decades of experience to design, identify, and measure 30 critical service supply chain Best Practice categories during each client's business review process. The scorecard is organized by practice area and the benchmarks for the Excess Management include an excess management ratio that measures whether inventory is aligned with target stock levels and it also measures whether a customer is following the best practice for excess scrap. The results from the best practice analysis are used to identify and recommend specific opportunities for improvement while ongoing business reviews are designed to monitor the adoption of these recommendations.

Baxter offers an Excess Management Consulting engagement for Prophet customers to configure the Excess report inputs, configure the Excess Scrap Detail report rule sequences, and to define a process for actioning excess. Baxter consultants will work with the customer team to review the Excess report as currently configured with the conservative, starting-point default inputs as a baseline. From here, the Excess Management Questionnaire helps Baxter consultants understand the specific requirements of the customer's excess identification process and the teams work together in an iterative process to fine-tune adjustments to the input parameters and ensure the report aligns with expectations.

Once the Excess report reflects the customer's excess needs, Baxter experts work with the customer team to define a repeatable process for excess management. The goal will be for the customer planning team to have a full understanding of the configured excess inputs for future excess scrapping exercises and to follow the best practice recommendation of reviewing these reports monthly or quarterly.

## **THE BENEFITS OF BEST PRACTICE EXCESS MANAGEMENT**

Managing excess inventory is key to supply chain agility and overall business health. Baxter's Excess Management consulting engagements include validation of data integrity, definition of the customer's excess goals and expectations, and configuration of Prophet's Excess report and Excess Scrap Detail report to meet customer expectations. Consultants will provide guidance to excess management best practices and work with the customer to create a systematic process to accurately identify, review, and execute to excess recommendations. The project concludes with a final deliverable outlining the final parameters that were adjusted along with a the potential excess inventory reduction opportunity. Contact Baxter to learn how you can benefit from Excess Management consulting to achieve supply chain excellence.

### **ABOUT BAXTER PLANNING**

Established in 1993, Baxter Planning provides inventory planning and optimization solutions to support service supply chain requirements across diverse industries. Baxter's solutions seamlessly integrate with existing IT infrastructure to forecast demand and optimize target stock levels to efficiently execute supply, replenishment, and repair orders.

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