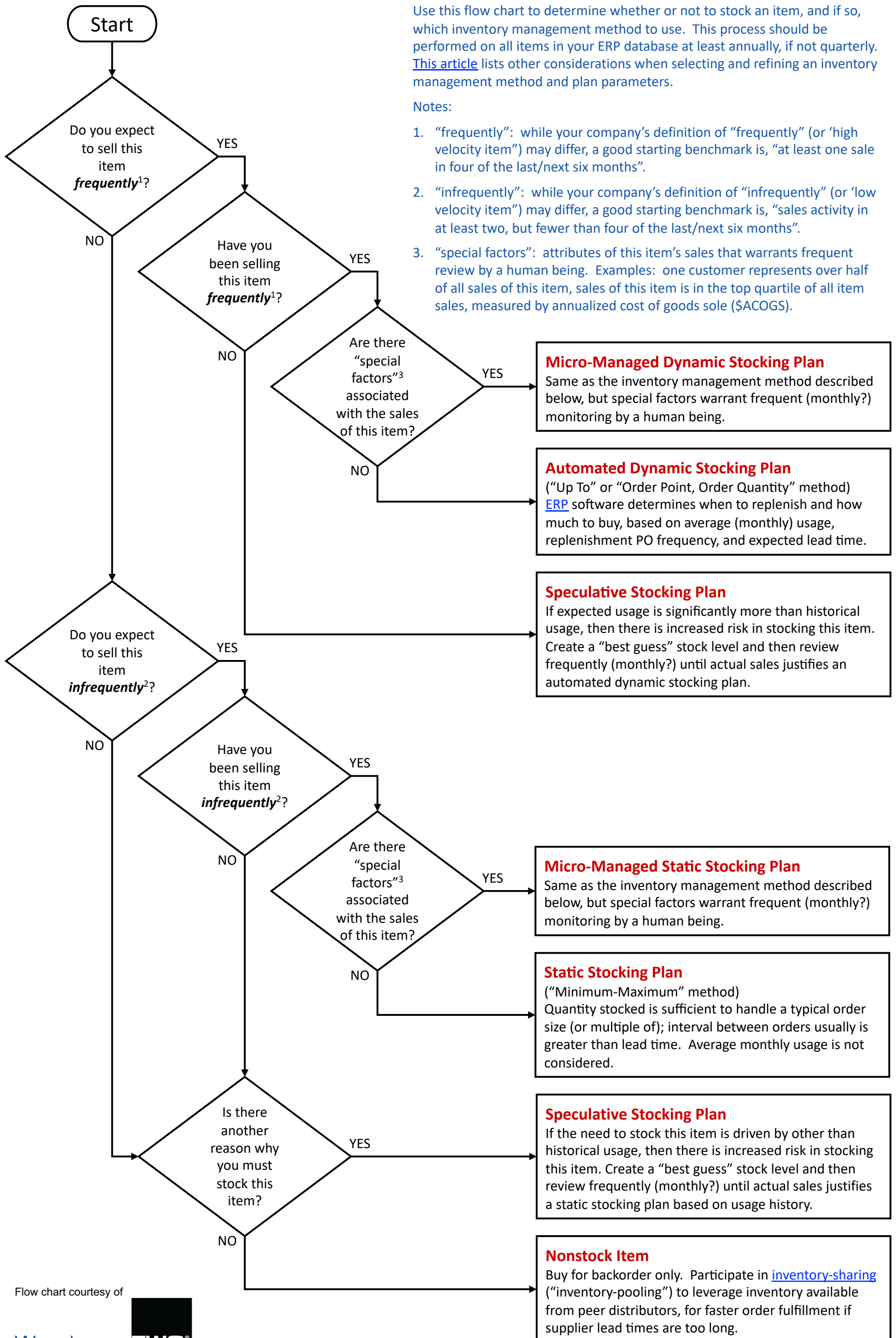# Item Stocking Method Selector

Use this flow chart to determine whether or not to stock an item, and if so, which inventory management method to use. This process should be performed on all items in your ERP database at least annually, if not quarterly. This article lists other considerations when selecting and refining an inventory management method and plan parameters.

Notes:

1. "frequently": while your company's definition of "frequently" (or 'high velocity item") may differ, a good starting benchmark is, "at least one sale in four of the last/next six months".

2. "infrequently": while your company's definition of "infrequently" (or 'low velocity item") may differ, a good starting benchmark is, "sales activity in at least two, but fewer than four of the last/next six months".

3. "special factors": attributes of this item's sales that warrants frequent review by a human being. Examples: one customer represents over half of all sales of this item, sales of this item is in the top quartile of all item sales, measured by annualized cost of goods sole ($ACOGS).

Start

Do you expect to sell this item *frequently*[1]? — **YES** → Have you been selling this item *frequently*[1]? — **YES** → Are there "special factors"[3] associated with the sales of this item?

Are there "special factors"[3] associated with the sales of this item? — **YES** →

Micro-Managed Dynamic Stocking Plan
Same as the inventory management method described below, but special factors warrant frequent (monthly?) monitoring by a human being.

Are there "special factors"[3] associated with the sales of this item? — **NO** →

Automated Dynamic Stocking Plan
("Up To" or "Order Point, Order Quantity" method)
ERP software determines when to replenish and how much to buy, based on average (monthly) usage, replenishment PO frequency, and expected lead time.

Do you expect to sell this item *infrequently*[2]? — **YES** (from "Have you been selling this item *frequently*[1]?" — **NO**) →

Speculative Stocking Plan
If expected usage is significantly more than historical usage, then there is increased risk in stocking this item. Create a "best guess" stock level and then review frequently (monthly?) until actual sales justifies an automated dynamic stocking plan.

Do you expect to sell this item *infrequently*[2]? — **YES** → Have you been selling this item *infrequently*[2]? — **YES** → Are there "special factors"[3] associated with the sales of this item?

Are there "special factors"[3] associated with the sales of this item? — **YES** →

Micro-Managed Static Stocking Plan
Same as the inventory management method described below, but special factors warrant frequent (monthly?) monitoring by a human being.

Are there "special factors"[3] associated with the sales of this item? — **NO** →

Static Stocking Plan
("Minimum-Maximum" method)
Quantity stocked is sufficient to handle a typical order size (or multiple of); interval between orders usually is greater than lead time. Average monthly usage is not considered.

Is there another reason why you must stock this item? — **YES** →

Speculative Stocking Plan
If the need to stock this item is driven by other than historical usage, then there is increased risk in stocking this item. Create a "best guess" stock level and then review frequently (monthly?) until actual sales justifies a static stocking plan based on usage history.

Is there another reason why you must stock this item? — **NO** →

Nonstock Item
Buy for backorder only. Participate in inventory-sharing ("inventory-pooling") to leverage inventory available from peer distributors, for faster order fulfillment if supplier lead times are too long.