

# Inventory Reordering Points Options



## Introduction:

CylTech 2 offers multiple methods of determining how much to re-order when it's time to replenish your inventory. The method chosen will be determined to a great deal by your knowledge of inventory replenishment techniques. The goal is to re-order in such a manner as to not have excess inventory while not constantly running out of stock and having to create backorders for customers.

There are four different methods of determining if it's time reorder inventory and, if you do, then how much to order. Each method is listed below with a brief overview.

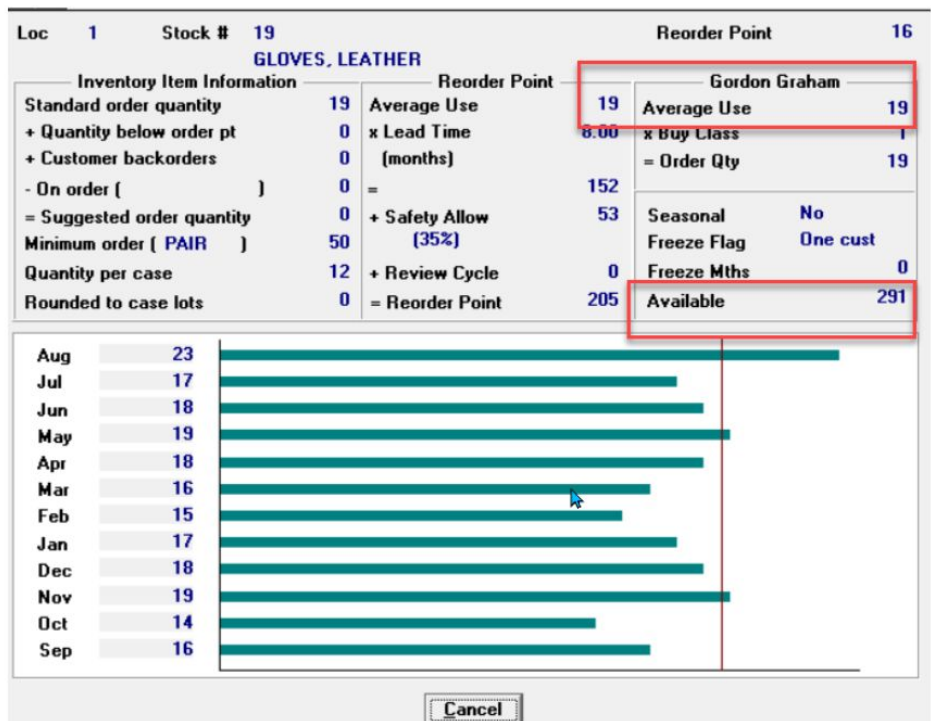
**Manual:** With the manual method, you are in 100% control. The system is not suggesting an order or how much to order. Instead you'll be looking at the data provided by CylTech 2 in order to determine if there's a need to re-order and if so, then how much. Below is the inventory screen used to help decide if there's a need to re-order.

If the decision needs to be made as to whether or not it's time to re-order, for instance, these leather gloves, then you would look at two things:

1. How many are sold each month?
2. How many are on the shelf?

In this example, the company averages selling 19 each month. However, there are 291 on the shelf. Regardless of how good of a deal the vendor is promoting, there's excess inventory and therefore this item should not be re-ordered.

The remaining three methods of establishing reorder points and order quantities are selected by choosing which method is best



suited to the organization when setting up the inventory item. **Note:** You can use the same reorder point calculations for all items, or different methods for different items.

Purchase Quantity	1.00
Order Qty Calculation	2 - Min/Max
Inventory Receipts Labels	0 - Gordon Graham 1 - EOQ 2 - Min/Max

**Min-Max:** The Min-Max method makes it possible to choose how many months supply you want on hand (turns) and will then set a minimum on-hand which triggers the order and a maximum on hand which will determine how many need to be ordered. The Min-Max method is a commonly used, simple calculation. You tell the system that you want to use Min-Max and then how many months supply needs to be on hand using the Buying Class. It's common for distributors to want to stock a two-month supply. If so, then that will be indicated when setting up the item. Simply choose Min-Max and the system will give an alert when it's time to reorder. Min-Max is a very good first step, but it does not address trends as well as other methods.

**Economic Order Quantity (EOQ):** EOQ uses a sophisticated formula for determining how much and when to order. EOQ has been around for a long time and is commonly used in the distribution industry. However, it creates a problem for many distributors. Why? Well, the formula is difficult to understand. If the buyer doesn't understand the formula, then they'll have problems understanding if the formula is calculating the order quantities correctly. EOQ is a good option for the sophisticated buyer, but it may be overwhelming for the novice buyer.

**Gordon Graham:** The Gordon Graham method is named after an inventory expert who developed the techniques and taught them for many years. This method adds sophistication for the buyer, but in an easy to understand method. It requires a more hands on approach than the EOQ method, but can be easily understood by even the novice buyer. The strength of this method is the ability to easily reproduce (and confirm) the numbers generated for re-order points and order quantities. The Gordon Graham method uses the philosophy that

the computer software can do a great deal of the grunt work calculating order points and quantities. It also recognizes that there are times (specifically questions) that the computer software will need more information from the buyer.

**Which Method Should You Use?** First, at a minimum you should use the information provided by the inventory graph. This will help to determine how much there is on hand and how much is being sold, which in turn, can help to determine how much to order. This requires looking at every item.

The Min-Max method is a good, easy to understand method, and requires little effort on the part of the buyer after it has been set up.

The recommended method that gives the best results though, is the Gordon Graham method. It does require more effort on the part of the buyer, but the formulas are easy to understand and easy to reproduce. The Gordon Graham method also handles exceptions better than the other methods.

**Have questions?** Feel welcome to send us an [email](#) or give us a call, we'd love to answer your questions!

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**JBL Solutions - Dataweld**

1909 Citizens Bank Drive Bossier City, LA 71111

Phone: 318-746-6111 Fax: 318-746-0323

[www.jbl-solutions.com](http://www.jbl-solutions.com)

[www.Dataweld.com](http://www.Dataweld.com)