The Distribution Team
We wrote THE BOOK on Distribution Inventory Management

Inventory State of Mind (Part 2)
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No Gain without Pain

Those distributors with multiple locations need an added incentive to keep your inventory state of mind in check. Branch managers are very good at getting the inventory they want to keep their customers happy. Actually, they are great at getting more inventory than they will ever need "just in case" they might sell it. Inventory creep is a huge issue for multiple location distributors. Having inventory in multiple locations requires hard work and discipline to keep it under control. Step one should be the mandate that cycle counting be performed on a regular basis. If you are not doing this now, start as soon as possible. You might want to do a complete physical inventory as part of your year end processing at each location. Use that as your starting point to begin cycle counting. However, you might also want to give each branch an opportunity to get their inventory in shape before the new year by pulling out all the dead stock, slow movers, just in case items, surplus items, specials and non-stocks, returns and damaged items. Give them some amnesty or at least a one time opportunity to get them fully on board with your new inventory state of mind.

Once you do this, you should make cycle counting the mandatory way you control branch inventory in the future. You need an exact count of every item in every location before you start re-supplying them. Branch managers have a knack for building inventory that does not move just because it makes them feel better. Once you decide to get an exact count of items by location, implement a branch compensation program that enforces your strategy. This requires some creative thinking but can be accomplished relatively easily. You might also consider moving from a "pull" method of replenishment to a "push" method. The pull method is most common and allows branches to request products as they feel are needed. It gives them autonomy to make purchasing decisions and stock a wider variety of inventory. This all sounds great, except that most branch managers are sales people at heart. In other words, do you want your sales personnel buying inventory on a regular basis? I think not. As we know, most sales personnel would like to have at least one of everything just in case they could sell it. If you want to stay with the "pull" method, then invest in some inventory training and purchasing classes for your branch personnel.

Moving to a push method allows a more centrally controlled method of re-supply. Using the information of on-hand, on order and cycle counting, inventory is pushed out to the branches by a central purchasing type organization. This causes you to make decisions based on facts not emotion. It also creates a method of inventory reduction on a recurring basis. You start to decrease the "just in case" inventory in multiple locations and replace it with what actual sales data supports. If the sales data and the inventory counts suggest the branch does not need product, then don't send it. On the contrary, if that data suggests more products to be stocked by location, then make it happen. But more importantly, you are controlling it with facts not fiction. You are using a combined approach to keep inventory under control.

Now that you have implemented cycle counting and a push method of re-supply, add in the kicker to make it stick. Develop a multi-tiered compensation plan that keeps your inventory strategy moving forward. Put in rewards for sales, gross margin and net profit gains by location. Also put in some pain or punishment for dead stock, slow movers, specials and non-stocks that never end up in a customer's hands, poor cost containment and overall inventory value. Give branch managers multiple chances to enhance their overall compensation by following your inventory strategy. Allow them to be rewarded when they hit sales, gross margin and cost containment goals, while being docked for allowing inventory to creep.

Dead Stock starts to stink

Getting your inventory state of mind off on the right foot requires some tough up front decision making. The first is to decide when something becomes dead and then what to do with it once you determine it died. Establish a dead stock policy for your company that is much more than just words. Put something together that handles at least 80% of your inventory if not more. For example, let's say you determine that something in your inventory is dead if you had no sales in the past 12 months. This is a good start for most distributors. Now, what happens on the 13th month first day? For most of us, nothing happens on the 13th month first day, and many more days after that one. This is a problem because we are not managing our inventory to the highest level of return. In addition to the money spent on the product to buy it, we have added at least another 20% in the carrying cost. We need to make a decision now, not 24 months later or longer!

Implement a strategy that gets your inventory to start stinking once it dies. Run the 13th month first day report every month to identify those items with no sales activity in the past 12 months. You should also include those items with 1, 2 or 3 totals sales in that same timeframe. These items might not be completely dead, but they have a fatal disease and soon will be dead. If you can handle them before they become part of your dead stock report, you are much better off in the long run.

Now that you know what is dead and dying, take action immediately. First you need to lock it down in the inventory management master file. Make it impossible for any more of this product to be purchased. You can take the necessary write downs on the financial statements as well. Use the 13th month first day report (your inventory obituary) to find the items in your vault. Take those items to a designated location in your vault (the cemetery) so you keep them visible and in mind. You know the rule, "out of sight out of mind". Set up an area for dead and dying inventory so you can maintain focus on this every growing pile.

Put someone in charge of dealing with these items such that you push hard in the next 30 days to make the pile disappear. We call this person the "dead stock manager" or mortician. Their job is to do whatever method necessary to turn your invested dollars back into hard cash. Look back at what has worked before to move these products and try it again. Look at which customers have bought any of these products before and call them to offer a great deal. Try repackaging some of these products with good deals on fast movers and sell them as a "package deal". Try returning to the vendor without incurring large restocking charges. Look at any available donation possibilities to get a tax write off. Finally, get a bigger dumpster, take the hit and move on. If for some reason you cannot emotionally get yourself to make these hard decisions and want to keep the product then at least raise the price. I say this because if you decide to keep it on hand, when someone ever asks you for it, it is probably not the first place they looked. You will discount it anyway just to sell it, so start discounting from the highest possible price. Note; this option should be used only in the case of an emotional emergency (new items you bought on emotion and just can't make the separation). In any event, you need to do something because there is another inventory obituary coming soon and you need to deal with those items. Dead stock is too often a never ending problem, however, doing nothing but hoping it will sell someday is a poor action plan to implement.

Doing something is better than doing nothing

These are just a few tough decisions you need to make to get your company in tune with a profitable inventory state of mind. Since inventory is one of the hardest issues we deal with on a regular basis, it requires some of the toughest and most unpopular decisions. Remember that we are not trying to make friends with our inventoried items; we are trying to part with them as quickly as possible. How we buy it and the decisions we make on the buy side will have the largest impact on our success. Once we buy it, what we do with it is the second part of the financial equation. If we decide to do nothing but hope and pray, we are in trouble. We need a collective effort to reach our goals. We need everyone to get into a "profitable inventory state of mind". That takes some time, some tough decisions, some hard work, more inventory accuracy and some changes in our way of thinking. In return we get a longer more successful life in distribution. If you want additional guidance in making these changes a reality in your company, visit www.thedistributionteam.com for other free articles. Good luck in making the tough decisions. Living in an "inventory state of mind" can greatly reduce your daily inventory challenges and just makes life "funner"!