



# The Distribution Team

We wrote THE BOOK on Distribution Inventory Management

## **Becoming a Power User**

**By Scott Stratman**

**Founder – The Distribution Team**

Distributors are often challenged with how to effectively use some of the technology they have available to them via their software provider. Over the years, there have been many trends or possible “fads” that come and go and while they are hot everyone is talking about them, but soon they become old news. I think about the Total Quality Management tools that software providers all developed in the 90’s. It seemed like everyone wanted to put some TQM tools to work and the software providers worked hard to deliver. The concept of TQM is a great concept, and it definitely helped some distributors get their process flow running more smoothly. However, how many distributors are using that tool today as designed? A bunch of programming done with little long term results. However, you really don’t need your software provider to develop the latest tools for you to get the biggest bang for your buck. Most distribution software has many wonderful tools that already exist but are not being utilized. These are not custom tools, but rather standard tools that when used can help you become a power user.

I am referring to the exception reports that exist in your system today. Many of the standard reporting tools in your software are what I call “data dumps”, or large green bar paper reports that spit out columns and columns of data. For example, a stock status report is a “data dump” report that spits out lots of data with regards to your inventory. It is useful if you want to look at everything you have in a certain warehouse location or by a vendor. But getting those large data dumps requires a good deal of manual inspection and dissection to make them very useful. Look at slicing the data your system generates into bite size pieces to make the tools more effective. Look at the exceptions you encounter in your daily operations and use the system to alert you to their occurrence. These are the things that often drive distributors nuts. It is usually not the normal daily ebb and flow of products that have some normalcy to their movement. It is the fact that there is an exception to every rule. Customers drive us to encounter a variety of exceptions to our rules. If we do not use the tools we have to alert us to these exceptions on a timely basis, we might miss them at the time, only to suffer their impact later on.

Let’s look at the purchasing side of your business. There are a variety of exception reports that can help you buy more prudently. The most common one is the exceptional usage report. This little tool should be part of your normal month end processing. It happens in the background and looks at the actual usage for every product in every location for the month that just ended. It then compares that usage to what your current monthly average usage has been for the past six months or three months to see if there is a significant variance. In other words, did we have a month where the sales were 25% greater this month than the average for the last six months? If we did, what happened?

Did we cause this to happen because we had a promotion for the item last month? Did our sales drop drastically because we lost sales of an item? What happens if we have these variances and do not adjust our future purchasing to compensate or at least take them into account?

The simple usage variance report is designed to run if this month's usage is higher or lower by a percentage you determine from the previous average usage rate. Maybe you only want to see those products with a variance in actual usage that is 50% greater than the current average. Whatever you set as the variance you want to see, be sure to run the report. It can alert you to a variety of potential issues that you will have to deal with sometime in the future. Let's look at the months when the usage is lower than the previous average. Should we become concerned? Did something happen in the market that drove this to happen? Did our competition run a promotion on the same product and stole some of our business? Did we lose sales because we were out of stock for a greater part of the month? When you are dealing with thousands of products trying to figure out the variances and the unique situations on each of them, it is tough to manage. So let the system alert you to the fact that something happened. While you should always run your exceptional usage report, you should also run your days out of stock report. This again is something that should run at month end. You can set the parameters such that you only want to see those items where we were out of stock for 10 days in the month or more. Sure we can see the backorders building, but we might just think that the backorders are a function of increased activity. Days out of stock reporting tells you that not only was the actual usage in the month off, but that we might need to adjust our future ordering controls. We should also notice the drop in sales in our lost sales reporting. However, as we all know, the lost sales reporting tools in most systems is cumbersome to manager. Days out of stock reporting is easy and happens with little manual input from us. Once we set it up, every month we will see the days out of stock for every item in every location that meets or exceeds our established criterion. Maybe we want to see any items with days out of stock in a month of 5 days or more. In other words, we want to look at the items where we were out of stock for a week. And, if we were out of stock for a week, wouldn't you expect our actual sales of the product for the month to be lower? Let's not miss the alarm, and go another month out of stock. Run the report and show us the items where we need to increase our stock levels and make the appropriate adjustments.

Another handy exception report is the lead time variance report. This little tool tells us when the lead time for a product varies from the current average lead time. This is great to know because it might be the beginning of a change in vendor performance. We could have been experiencing a two week lead time for the product for years and then it jumps to three weeks. Would we really notice that if we did not run the lead time variance report? I suggest that changes in the lead times happen more than we know and we find out at the wrong time – when we are out of stock. Changes in the current lead time might be an indication that the vendor is experiencing some problems with raw materials or production. If that is the case, why not let the system alert us immediately to a possible change in future deliveries. Oh I am sure we will find out sometime, but sooner is always better than later. We might use the lead time variance report as the premise for a vendor

performance report. Tracking changes in the lead times by vendor is critical because their performance impacts the amount of safety stock you need to carry. Great performance on their part means we need to carry less safety stock. Poor performance or changing performance indicated by changing lead times might cause us to increase our safety stock. Not knowing what is happening is a bad option.

Let's look at one more exception report that is helpful for those distributors with multiple locations. Re-supplying branches is often done via the hub and spoke method, a larger branch re-supplies the smaller branch. You have established some normal method that the products in every branch get re-supplied. It might be from the hub branch or it might be from the vendor directly. No matter the source, you should establish the least cost method of replenishment. This is known as the Authorized Replenishment Path (ARP). If you follow the ARP you hopefully will realize the lowest outgoing cost and thus maximizing your gross margin potential. A simple ARP Exception report sets off the alarm that a product was re-supplied to a branch via a different method than you established. This is great to know for a variety of reasons. Maybe the new channel of replenishment is better than the one you established? You simply can adjust the ARP and move forward. Branch managers will go to great lengths to get product. They will beat the system if they think it will help them sell more. Something as simple as breaking your ARP rules can easily go undetected. Turn on the ARP exception report feature and each time a product is received into any location that does not follow the ARP, have the system tell you.

There are numerous exception reports that already exist in your system today. These are the reports you need to learn to further enhance your return on investment in the software. You can have them set up to run just as they were designed when you got the system, or you can customize them to reflect your unique business situations. Many people unfortunately do not even run them because they did not know they were in the system to begin with. They get so wrapped up in the "data dump" type reports that they don't focus on the real reporting tools inherent in the exception reporting. Purchasing, sales, accounts receivables, accounts payables and vault personnel can all use some of the exception reporting tools in the system. If you don't know where these reports exist, call your software provider and ask them for a sample exception reporting booklet of every exception report that exists in the system. Don't worry, they have it already but you just need to ask for it. It will make it easier for you to see all the places you can use these tools if they provide the sample booklet.

In addition, you can always extract the mounds of data the system generates into some Excel spreadsheet formats and then massage and dissect the data into more useful reports. However, if you have some of the tools already in the system to at least alert you to some pending danger, why not use them? If you paid 100% for the software when you bought it, why not try to use 100% of it? The sad part is that many distributors only use about 40% of the tools already in the software. Turning on and understanding the exception reporting tools you have in the system gets you one step closer to becoming a true power user.



This document was created with Win2PDF available at <http://www.win2pdf.com>.  
The unregistered version of Win2PDF is for evaluation or non-commercial use only.  
This page will not be added after purchasing Win2PDF.