The Distribution Team
We wrote THE BOOK on Distribution Inventory Management

Three Heads are Better Than One
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As we roll through the back half of the year, many manufacturers are gearing up for their Fall product launches. Programs are being created and promotional literature is going to press. Prepare yourself for the latest improvement to your favorite products. Since football season is around the corner, get ready for the "Touchdown to Savings" sheet. It seems like this one never gets old. The manufacturer's reps are gearing up for a full scale assault on your purchasing folks. Take the time now to prepare them to ask the right questions so you can avoid problems in the future.

Buyer beware. The leading cause of dead stock is bright, shiny new items. This is the new improved model of the new improved model that you still have on the shelf from last Spring. This is worse than your run of the mill dead stock. This stuff was dead on arrival. We seem to have forgotten that only a few short months ago, during the annual physical inventory, our warehouse was filled with the unsold carcasses of last season's sales darlings. Dead inventory kills your profitability in two ways. Not only does it tie up capital; but it actually costs you money in handling. I think that we all agree, dead inventory should be avoided at all costs. Since we know that new items cause dead stock, we should use caution and scrutiny when adding new items to our inventory.

Manufacturer sales reps are trained professionals. They are masters at telling you how great your life would be if you sold their product. More often, they appeal to the emotional side of the buyer. An old friend of my father's once told me, "It's easy to sell to a salesman. Just get his head to start nodding…" So given this bit of gray haired wisdom, who do you think these reps target in your company? The Sales Manager! Salespeople love to have new things to sell. I should also note that the owner of the company, usually with the heart of a salesman, is also easily excited about new items. More DOA(Dead On Arrival) stock can be attributed to owners than anyone else in the company. Here is a quick tip: Don't let the owner of the company wander through a trade show alone. There are tons or bright shiny new things at trade shows.

As I said earlier, we must make it difficult to bring new items into the company. Instead of letting just one person make the buying decision, consider forming a committee of three. The three committee members should be the Sales Manager, the Purchasing Manager and the Controller. The Sales Manager is there to determine the market for the product. Who are the potential customers? Does it replace a current item? The Purchasing Manager is there to determine how to buy the product. Sometimes buying a lesser quantity as a test is a more prudent alternative. You may pay a premium; but you won't be stuck with a mountain of inventory if it fails. Finally, the Controller is there to determine how to finance the purchase. By utilizing the committee, you will reduce the chance for an emotional buy.

In my former company, we called this group a “Line Buying Committee”. The group met on a monthly basis to review new product offerings. During the review process, some very important things need to be accomplished. Marketing plans need to be established. I’ve been around this industry long enough to know that paperwork is akin to swallowing cod liver oil. Keep the plans simple, leave the powerpoint slides to someone else. A simple one page plan will suffice.

While marketing a new product is exciting, creating the exit strategy is the key to inventory success. The most important task of the committee is to develop three different exit strategies for the product in the event that it is not the greatest thing since sliced bread. Each of these exit strategies needs to have a time line. For example, if we do not sell our projected quantity within the pre-determined time frame, what is the cost of returning it to the vendor? Again, don’t make these plans too complicated. You can sell it off at a discount, return it to the manufacturer, or you can throw it in the dumpster. One of the more creative solutions might be to give it to the salesperson that had to have it, in the form of Christmas bonus. You must not allow this new item to become buried on your shelves and contribute to your dead inventory.

The least painful way to dispose of a failed product addition is to simply return it to the vendor. Have you ever noticed how some manufacturers reps seem to become less available when you are trying to return something? Sure, they were in your office on a daily basis prior to the sale. In addition, many reps will give you a verbal return policy, “Sure, if it doesn’t work out for you, we’ll just take it back.” Verbal agreements just don’t cut it today. Get the return policy in writing with timeframe and costs clearly defined. Be wary of those individuals who won’t sign a simple agreement. Remember, we are trying to make it hard to create dead inventory in our companies.

In order to help weed out the less than reputable companies, I developed a little checklist for every new line presented to the company. This will assist the committee in making a good decision on the line.

Manufacturer Name

- *Make sure that the full name and address of the company, including the parent company, is written down.*

Representative Name

- *Request the name of the representative, and the person’s immediate supervisor. If it is an agency, request the name of the principal.*

Shipping Location

- Where will your products be shipped from? This will help you understand lead times.

Freight Policy

- *How much do I have to buy to get freight prepaid? Any special considerations for overnight shipments?*

Terms

- *When do I have to pay? Is there an incentive for fast payment? Are there special terms (ie net 90) for the first order?*

Volume Rebates

- *Does the manufacturer offer a rebate program based on annual purchases? How does the rebate come (cash, merchandise credit, other)?*

Co-Op Advertising Funds

- *Does the manufacturer give marketing assistance funds? What is the policy?*

Pricing Available on Disk

- *Does the manufacturer provide price updates on a disk? What format is it in? You should know what format that you would prefer to see it in.*

Training Support

- *How does the manufacturer handle training on their products? Who is expected to pay for this training? Are there any videos or other material available?*

Engineering Support

- *Does the manufacturer provide any assistance with getting a product specified with an engineer or architect?*

Local Distribution

- *Who else distributes the product locally? How are they doing with it? Why do you want to add more distribution?*

Average Gross Profit Margin

- *What kind of margins should we expect from the line? What are the ultra sensitive items?*

Market Potential in Dollars

- *Ask the representative to give you an idea of the market potential. This will help you determine your inventory strategy.*

Guaranteed Sell Through

- *This is where we ask the manufacturer to take back unsold items in the line. I would suggest that this should be a six month minimum. Shoot for 12. Be sure to review the line in the final month and determine what needs to go back.*

Certificate of Liability

This may seem a bit odd; but not to those who have been stung in a product liability suit. Make sure that the manufacturer has adequate liability insurance.

This checklist is just a guide. If you would like a copy of the checklist, please email me and I will send you a simple checklist to help you prevent a build up of DOA inventory. You need to modify it to meet your specific needs. Most reps will not be able to fill out all the questions on the spot. Let them bring it back for a follow up call. The pace at which they return the information can give you some insight on how hard this rep is willing to work on your behalf.

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