



The Distribution Team

We wrote THE BOOK on Distribution Inventory Management

Let's go Hunt some Cash

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I've had the opportunity to review literally hundreds of distribution operations, and asset management keeps distributors awake at night. The largest asset being their stocked shelves and yards full of inventory. They worry about paying for it when the invoice comes due? Will their customers want as much as they bought? Will the bank extend them additional credit on their already expanded limit? Not only do they stay awake at night, but some keep the Maalox bottle close, or look for some warm milk to calm their nerves. Cash is always an issue, as there never seems to be enough when needed!

Over the last 18 years in the distribution business I have rarely ever met a distributor that is flush with cash. I have also never talked to any purchasing managers who tell me that their company has so much cash that they have carte blanche to buy any amount of any product they want for inventory. Those in purchasing know the scenario all too well.....how many A & B items can I buy this month with the funds allocated?

When asked to do one of my "One Day Reviews" with distributors, I tell them that my ultimate goal is to spend the day "hunting for cash" within their operations. While we will review almost every aspect of their operations, our mission is to find those places where cash currently exists, and where we can prevent additional and unwarranted cash to be spent.

Some distributors put out the edict that every purchase made needs to meet the vendors minimums such that free freight is part of the equation. In many cases, this is a wonderful guideline to follow. However, if it is an edict, too often additional cash is spent on inventory to meet the freight free minimums without regard for the cash that will be spent carrying these additional quantities.

Everyone knows that there is a carrying cost of inventory. Today, this usually runs about 25% of the cost of the product on an annual basis. So the moment inventory arrives at your location, the internal cash begins to flow in terms of warehousing, counting, moving and possibly losing any product. Therefore, before you give the edict of always getting free freight, be sure to at least run the numbers on the cash you will spend to "manage" the excess quantity purchased before it turns its way out the door.

While many distributors spend countless dollars "stopping the bleeding" on their inventory investment, I challenge you to try to eliminate the wound all together. In other words, look at your computer system master file controls to review all the ordering controls

currently being used. Your challenge is not to try and heal the wound after you have created it through sloppy purchasing, but rather to tighten up your ordering controls such that you don't create the "sore spot" in the first place. When was the last time you reviewed the order point calculation, the usage rates, the exceptional usage override features, the minimums and the maximums, and the override lead time features? How much safety stock is your system telling you to carry on all your items? Just for starters, please go into your system and look at how much safety allowance your system is set up for on those good old C & D items? Many systems come with defaults for the ordering controls, as that allows for easier installation. However, if you have not taken the time over the years to adjust them, you might find some of your C & D items being replenished with the safety stock percentage still sitting at 50%. Carrying 50% safety stock on any D item makes no sense, and it cost you some critical cash.

After you have reviewed the ordering controls in the system, it is critical that educate your receiving personnel on their role in cash management. Since you have started the ball rolling by placing a purchase order with the vendor, you need to manage the cash impact of that order all the way through the entire process. When items are received on the dock, they need to be accurately put into the system. This requires matching quantities received with quantities ordered, not accepting damaged or wrong items, and identifying whether the lead time for the items received should or should not be recorded in the system. Since lead time is a critical piece of the order point, safety stock and line point calculations, mismanaging lead times in the system will impact your ultimate cash flow. Hopefully your system will help you identify those unusual lead times, but unfortunately many systems do not do this automatically.

The best tools for you to use to help you hunt cash are the system generated exception reports. For most distributors, these are reports that exist within their systems but are rarely reviewed. Roughly 80% of the systems generated reports are "data dumps" of information telling you what has occurred within each of the functions of the business. You know them as "month end processing reports". They give you an account of just about everything imaginable. However, the remaining 20% of the reports are designed to alert you to "hiccups" in the normal operating procedures. They will alert you to exceptional usage, weird lead times, days out of stock, and weird pricing. Some of these reports should be run every night to aid you in attacking a situation before it gets lost in the busy daily schedule. You don't need to "kill a forest" in printing them, but at least set up the system to have many of them run and print on the appropriate manager's screen for review in the morning. These reports may not allow you to be totally proactive, however, they can be wonderful tools to help you be more preventive.

Remember that our goal is to find as many places and tools to help us hunt for cash within our operations. If we can find just one or two of those exception reports that allow us to save a buck here and there, or ensure that the data being fed into our computer system is more accurate, we will be able to hold onto some of our other valuable asset...CASH! If you are interested in spending a day learning about "hunting cash" in all areas of your

business, please give us a call. Even if you don't own a rifle or a bow, I can guarantee that going on this "hunting trip" with me will "bag a bunch of fowl"!

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