



The Distribution Team

We wrote THE BOOK on Distribution Inventory Management

Simple Steps to Reducing the Transfers (Part 1)

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According to most distributor operations managers, transfer should be a four letter word. No practice gives us more fits than moving product around our locations. Those of you with multiple locations know exactly what I am talking about. At one time my business had 9 locations over 4 states. We were transferring fools. I remember when the company was just a couple of locations. Even with fewer branches, we still had daily inventory transfers. What was even more frustrating was the fact that some of this inventory seemed to have a round trip ticket. It never seemed to land in the hands of a customer. I wish we had little stickers made up with the names of each location. Several items would have been plastered in them like the luggage of a world traveler.

I need to make a quick point of clarification. Not all transfers are bad. Inventory transfers as part of a planned branch replenishment program are normal. In fact, this is the preferred method when a location is just starting out or is in close proximity to a hub facility. Typically, these are not the culprits when we are talking about transfers gone rampant. The offending practice generally comes as a result of a customer service crisis – commonly referred to as a “stock out”.

To add insult to injury, who covers the cost of this inventory tour? The company does. We see it in our freight expenses, material handling labor and our customer service personnel. Over the course of this two part article, I am going to touch on several areas where you can start looking for solutions.

Analyze your product movement.

Those of you who have read previous articles know that I am a strong proponent of inventory reporting. I believe that your distribution software reports will be your greatest ally in this fight. When I want to know what items are selling in a specific branch, I turn my attention to the HITS report. For those of you who are unfamiliar with this report, it is like an inventory popularity contest. The report measures the number of times that an item appears on a sales order in a 12 month period. It doesn't care about the quantity sold. It just measures the number of transactions. If you would like a format copy, send me an email.

Most expedited transfers occur because we have failed to match our stocking habits to our customer's buying habits. Inventory management is all about having something at the right place at the right time. Too many of us rely on gut feel and historical knowledge to make our stocking decisions. Items rise and fall in popularity. What was hot last year may have been superseded by the next great thing this year. Our customers can be a fickle lot.

In order to stay ahead of this product popularity shift, I suggest that you run a HITS report for each location on a quarterly basis. Make sure that you are adequately stocking the most popular items with that location's customer base. I want to make a quick point here. Some companies tend to look at the hits data from a global company perspective. As I learned, very painfully I might add, what sells in Portland doesn't necessarily sell in Denver. Run the report for each location separately.

Through your analysis, make sure that you are ridding the location of unwanted inventory. Move the low hit items out of the location. Reduce the surpluses in the mid range items. Bump up your investment in the top 10%, ranked by hits. The easiest was to make this a permanent change is to adjust the safety stock settings. Higher safety for popular items; conversely, minimal safety on less popular items. This should help reduce the number of stock outs.

Balance the Inventory

Inventory balancing refers to the process of taking slow or surplus inventory out one location and transferring it to a location that has adequate need for the stock. It works on the theory that one man's garbage is another man's gold. Most of us actually do this currently. Remember all those daily transfers I spoke about earlier? This is nothing more than inventory balancing using the most expensive method possible.

As an alternative, follow up your HITS analysis with some large planned transfers of product. Take the time to redistribute the inventory into the right locations. Make sure that you are making the proper changes to the item control settings in your software. If you want to discontinue a product in a location, make sure that the system knows it. Otherwise, you will be doing this all over again next quarter. Regular inventory balancing will reduce the number of emergency transfers across your whole company.

Train Your Customer Service People to Ask Questions

Imagine this scenario, a customer comes into your Portland location and asks for particular item. The customer service person checks inventory and sees that we are currently out. Because we have invested in a sophisticated distribution software package, our customer service person can see that we have them in our Seattle location. What happens next can ultimately cost you a lot of money. Ask yourselves, what would happen in my company? In my experience, the next words are something like, "No problem, I can have them here tomorrow."

Before making the transfer investment, we need to train our people to ask a few questions first. When does the customer actually need the product? Our normal replenishment order may be here in a couple of days. Do we have an acceptable substitute in stock? Can they take a partial shipment if we would be wiping out the Seattle inventory? Is the customer willing to pay the freight charge to get it down here? Can I have it shipped directly to your office?

Now this practice will not reduce your inter-branch transfer activity, but it will take some of the cost out of the process. Why do we insist on transferring from one branch to another, let the item sit on the dock for a day, then send it to the intended customer? Wouldn't it make more sense to

only apply labor dollars to the shipping side of this equation? Some of you are thinking “Do people really do that?” Trust me; I watched it happen for years.

We are already paying a shipping cost to transfer the product, why not let the item go directly into the hands of the customer. If the words “sales credit” enters any part of your justification here, may I present a pistol to shoot off your other big toe. Fix this problem. Most modern distribution software will allow sales credit to be applied where ever you see fit. Please don’t spend additional operating dollars so that some branch gets credit for the sale.

This should get you started on the path to reducing transfers. In the second half of the article, I will touch on a few additional ideas. Managing transfers is one of the most challenging parts of a distribution operation. If you have questions about implementing any of the ideas, just get a hold of me. Good luck.

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