



The Distribution Team

We wrote THE BOOK on Distribution Inventory Management

Simple Steps to Reducing the Transfers (Part 2)

By Jason Bader

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Back when I was a distributor, I remember how challenging it was to control the transfer process. It seemed like transfers just happened in spite of my best efforts. Now don't get me wrong, not all transfers are evil. It just seemed like we had a lot of product on a permanent tour of the locations.

As the name above implies, this is the second part of this article. If you happened to miss part 1, I would be happy to send you a copy. In this half, I wanted to share a couple more ideas to help you curb the flow of errant transfers. The fact that we rarely get compensated for this common distribution practice results in a fairly significant drain on net profit. Managed properly, replenishment through transfer can significantly reduce surpluses at the branch level. It just takes a coordinated effort.

Rank Your Customers

Before making the decision to spend our money to transfer this product, we need to ask ourselves, "Is this customer really worth the investment?" This is a touchy subject for most distributors. We have taught our people to treat every customer the same, but we ultimately know that they have different importance to the company. In order to help your customer service people make good transfer decisions, we need to give them profitability ranking information.

In previous articles, I discussed a method to rank customers based on their contribution to net profit. If you would like to get more detail about the method, contact me and I will discuss it in depth. The crux of the exercise is to establish different service levels based on whether a customer contributes to, or detracts from, your net profit.

Once the ranking has been established, you set up certain guidelines around the transferring of products. With your best customers, you wouldn't think twice about spending the money. With your worst, you wouldn't even consider the transfer. Knowing who you are transferring for will help you reduce the number of items moving around the system.

Use a Central Authority

Many of the companies I have worked with give transfer authority to everyone. It seems like anyone is authorized to spend company money in the name of customer service. This practice leads to a transfer free for all. Invariably, this leads to inventory surpluses all around the system.

In the scenario I mentioned above, let's assume that we wipe out the Seattle inventory. One of their best customers calls in and wants some of the product. An apologetic sales person says, "Sorry, you just missed them. We had to ship them down to Portland." How happy is this customer? They will probably say something like, "I don't care what happens down in Portland. When you opened this location, you said you would have what I needed when I needed it. I'm going somewhere else." Do you think this location will ever run out of this item again? I see a large transfer in their future.

A central authority can help smooth out these issues. They can analyze why the original location was out of inventory and make the necessary system adjustments. This will prevent future problems, but more importantly it will prevent knee jerk reactions. A central buying authority may know that this item can be sourced locally for a reasonable cost. Using a central gatekeeper of inventory removes the emotional decision making.

Examine the Current Transfer Routes

I recently worked with a large HVAC supplier with several locations. One of the challenges we looked at was the space constraints in his hub location. He was having a difficult time staging the transfer orders for each location. We worked out a scheme where he was able to utilize the trailers ahead of the transfer run for storage. This was looking great and we could have just stopped there. Feeling rather proud of myself for offering up a workable scheme, I said, "Do we really need to have a dedicated trailer for each location?" I should have kept my mouth shut. Over the next several hours, we analyzed the transfers, the sales volume, and the current routes for each location. Ultimately, we figured out how to combine a couple of the routes so that they could better utilize the trucks and drivers. It all worked out well, but sometimes you need to quit while you are ahead.

All kidding aside, this was a worthwhile exercise for this distributor. Take a look at the current volumes for your smaller locations. Do weekly transfers make sense? Should we transfer a larger shipment every 10 days instead? With reduced sales volume in the current economic climate, we may be better served to replenish less frequently.

Take a hard look at the use of your own fleet for transferring product. Common carriers may be a more economic way to move inventory around. They may be more willing to negotiate LTL rates these days. It's worth the effort. I never won the lottery on the days I didn't buy a ticket.

I used to envy my friends who had single location operations. Bigger is not always better. When you become a multi-branch company, the word transfer will come up in every operations meeting you hold in the future. Done well, branch replenishment can reduce inventory across the entire organization. It is still the best way to feed a new location. Look at the various areas I have outlined and see if you can integrate them into your organization. If you get stuck, just send me a note. My job is to help you get past these barriers to profitability. Good luck.

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