



The Distribution Team

We wrote THE BOOK on Distribution Inventory Management

Sometimes Being Audited is a Good Thing

By Scott Stratman

Founder – The Distribution Team

Mention the word audit to most people in America, and suddenly panic takes over their nervous system. Audits are really just check ups to see how things are progressing and determining if some changes should be made. Cycle counting is an audit of your inventory accuracy. Sales Analysis is an audit of your sales personnel's effectiveness and the reality of your pricing matrix. Profit margin calculation by line and or by order is an audit of your cost structure, pricing strategies and clearly an audit of projected net profit. These are all wonderful and necessary audits for distributors trying to manage their cash flow more effectively.

One audit distributors should undergo on a more regular basis is the system audit. The system audit is when you have someone from the software company come out and spend a few days looking at how your system is set up, how well it is running and what features and functions you are using or not using currently. The system audit usually is most effective at various stages in the life cycle of your software.

It is not uncommon for a distributor to make a selection of a new operational software system (a new business partner as I prefer to call them) and be very excited about all the things the new software can provide. Once the initial selection is made, the training begins on the new system. Some distributors take their time and do a great deal of training up front before the system goes live (which I highly recommend). Frankly, from the time you select a new system until the go live date, I think it wise to spend a minimum of four months training your key people or lead trainers on the new system. Some take longer, which can only be beneficial in the long run. However, no matter how much training is done, the task of grasping the nuances and the features of a new system are monumental. As the go live date approaches, there is a mad scramble to make sure that order entry, billing, picking, receiving, purchasing, payables and all the accounting functions are in place. Most distributors run short of time and go live without properly training everyone on these key functions.

Now you are live, and the heat is on to make this product work when it is no longer in test mode. Real money is being spent on purchase orders, customer orders and warehouse operations. Hopefully things got set up right from the beginning because trying to fix them in the heat of battle is often difficult. This is reason number one for having a system audit done on your system. It is often after the first year or so that distributors really kick it into high gear in terms of understanding their new software. After making lots of errors and adjustments and figuring out some cool work arounds,

you're feeling pretty good about the investment in this product. But how do you get to become a power user?

The answer is simply to have the software company come out and perform a system audit. The most critical pieces of the software to be inspected are those that generate the most cash flow (either outgoing cash or incoming cash).

Purchasing would be my number one target area. Here is where the most cash (outgoing) is used. So go through the product set up fields and inspect every control feature you originally put in from day one. Check all those you changed as you got more familiar with the system in the last year. Look at the warehouse set up controls and the links between products and warehouses. Investigate the ordering controls closely to make sure you have them set properly. Look at your product categories and how you might want to use them to enhance your buying opportunities. Are there ordering controls available to you that you do not use because you did not know how to use them from the beginning? Are there opportunities to establish substitutes and complimentary item product links and interchanges? How are you handling superseded items? Are you managing your slow moving items and dead stock using the system tools? Look at how you have seasonal items set up in the system? Is there a better way for you to handle rental, service and repair items? How are you handling work orders? What about the vendor master file set ups? The list gets very large very quickly, and each of the above mentioned points can all help you enhance your overall purchasing functions and cash flow.

You don't have to stop at purchasing on the first visit, but I can bet it will take up most of your time. If you have time, continue on into all the sales analysis reporting functions, the warehouse operation functions and the accounting modules. You definitely need to spend time setting up and understanding all the reports you have had in the system from day one but have yet to use. Some of those you are using can be looked at for modification and clarification. Explore all the exception and variance reports in the system and make sure these are working for you. The exception and variance reporting tools are what will help you become a power user in a shorter period of time.

Once you have had your first system audit (about a year after you went live), determine when you should have the next one done. There is no magic answer to this one, but some critical changes in personnel, growth, product lines or service offerings might dictate having another one done. The most common reason for having a second audit performed is the loss of personnel. Understand that the second or third audit might not be as extensive as the first one, but use it to hone in on specific areas of weakness or misunderstanding.

A system audit can be a life changing experience for your company and your system. With shrinking margins in almost every vertical market, increasing efficiency has become mandatory. That is the primary goal of the system audit – allowing you to work smarter not harder. Like any of your customers, you need to maximize the return on your technology investment. We all know that investing in technology does not mean pay for it once and let it rip. Technology investments are ongoing. Not making that ongoing

investment reminds me of the old commercial where the message was “pay us now or pay us later”. This is very true with your operational software. If you do not continue to make the investment in additional training, audits or upgrade enhancements, you will end up paying more in the long run. Do not be cheap in your thinking about the system audit. Make it part of your budget each year. You may or may not get it accomplished in that fiscal year, but plan for it in advance. The time you do not want to go through one is when your key systems personnel leave and all the things they have done went with them in their heads. You are left asking the question why about a million times. Why was this set up this way? Why is this happening on my purchase orders? Why are we having so many customer complaints, mis-shipments and errors? Why doesn't my report come out like it used to? Why can't I get the system to work? Unfortunately, this list gets extremely long and painful. I hope you do not finally answer all these why questions with the big one – “why don't we just throw this system out and get a new one?” That is the wrong answer!

So much of your business is dependent upon the system running smoothly and correctly. It doesn't make sense not to spend a minimal amount of cash each year on a system audit. You not only protecting your technology investment, you are protecting your business net profit.

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