



The Distribution Team

We wrote THE BOOK on Distribution Inventory Management

Thoughts on Dead Stock Management

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Over the past 20 years of presenting to distributors, I always ask audiences to show me the hands of those having dead stock on hand. I am amazed that almost everyone raises his/her hand; and, I've heard endless stories of distributors dealing with dead stock. Some are happy stories in that they found it hidden in their warehouse and actually got rid of it. Some are sad stories of misfortune and lost money because the dead stock continued to grow and soon overtook the good stock in terms of warehouse space. Dead stock is a product of purchasing, sales, accounts receivable and company philosophy.

There is no one person or group of people to blame for dead stock.

Dead stock is too often purchased because of lack of knowledge and communication between sales and purchasing. It is sad how many times distributors have actually bought dead stock, received dead stock and put away dead stock, without ever realizing that it was dead on arrival (D.O.A.). Oh! I know it sounds crazy, but it happens all the time. It could be the edict of the company president to bring in all kinds of stuff to enhance selling opportunities, not looking closely enough at the product mix to know some of it is D.O.A. There are many reasons why dead stock still lives and breathes in our businesses. Some of the reasons actually do make sense (well – not to everyone, but to at least a few in the organization).

Dead stock happens! It would be great if each day you could walk through your warehouse (vault), take a very deep breath, and just find it by walking toward the foul odor. Yes, if dead stock began to stink once it got close to being really dead (like fruit or veggies), we would act more quickly to eliminate it from our vault. We've all had the experience in our kitchens when we open the fridge and a foul smell greets us while looking for a cool drink. It would be great if that were the case in our warehouses – simply sniff, investigate the source of the odor, and then deal with it.

Unfortunately, dead stock does not smell bad and it is not easy to find. Therefore, you need some hound dogs in your business to sniff it out. These hound dogs need more than a good nose; they need system-generated reports to point them in the right direction. They need sales reports by: product; product class, region; sales person; and date. They need to use the "hits report" telling them how many times in the past year each product was sold, comparing it to the number currently on hand. They need to know the dollars invested in the products on hand, to determine a selling price that helps move those items out of inventory. They need help and support by everyone on the management team to move those products. Dead stock management requires action steps that must be carefully planned and followed throughout the year.

Step 1 – PREVENTION. Prevent dead stock from coming in as D.O.A. inventory; Prevent new items from being loosely managed – it allows them to become dead stock instead of ridding yourself of the investment; Prevent sales personnel from directing the purchasing department on what to buy, instead of using good inventory practices to determine inventory levels; and, Prevent branch managers from keeping excess, slow-moving and dead items in their inventory, without some disincentive in their compensation plan.

Step 2 – IDENTIFICATION. Identify those items with dying sales and/or no sales activity at all; Use of a HITs report is very helpful to identify dying and dead inventory; Use of a HITs report allows comparison of the on-hand quantities, the sales (or HITS) in the last 12 months and then calculate a months supply on hand; Maintain inventory costs on this report; and, to give yet another figure to focus, take the month's supply quantity & multiply it by the carrying costs. You quickly begin to see how expensive it is to keep this inventory on hand. It might spur you to take action more quickly than in the past. **Once dead stock has been identified, it is a good idea to separate it from the good stuff.**

You might want to move it to a certain area of the vault, thus having it quarantined for ease of movement. You might do this by putting different colored stickers or labels on it, keeping it on the shelves. However, if you move it to a specified area, it is easier to see, identify and it creates more of a focus on the growing challenges at hand. Once identified, go back into the system and freeze the purchasing controls for those products. Freeze codes allow you to freeze purchasing parameters and not allow those items to be reordered, unless done so on a special order basis. Some distributors think that if a product is dead, it cannot reproduce. Wrong! If it is not quarantined in the software, it always has the possibility of showing its ugly head again in your inventory.

Step 3 – COORDINATION. Coordinate the efforts of management, sales and purchasing to keep new items to a minimum, if possible; Coordinate the efforts of purchasing and sales personnel to keep the dead stock items at the forefront in an effort to move them; Coordinate the efforts of all personnel to understand what steps will be taken to move those items; and, Coordinate the timeframe for each action step implemented, establishing goals and cutoffs for the action steps taken (disallowing plans to run on and on).

Step 4 – DISPOSITION. Disposal of dead stock can take many forms. It can be given to: the sales personnel for them to sell – even giving them incentives for moving blocks of it at a time. [However, if it hasn't sold in the past, this usually yields mild results.]; Lower the price just to get it out of stock usually yields some success; Donate it to a charitable organization, taking the tax write off; Re-package it with “good items,” selling it as part of a package deal; Bundle it into groups and talk to your better customers, asking them to take the entire bundle at a certain price; Hold a semi-annual or annual “garage

sale,” grouping dead stock with good items -- setting a goal to sell it all during the one-day “garage sale;” Or, you could just throw it away!

Over the years, the most effective method I have implemented is to create the position of a Dead Stock Manager. This person has the responsibility of taking all dying and dead stock items and making them disappear. They are compensated on their success of reducing the dead stock inventory – thus, you average inventory value. They also can take any new items that have not sold, and coordinate their disposition (remember, new items are the #1 source of dead stock). This person should report directly to the President of the company, as tough decisions will have to be made. They are the ***supreme cash hunters***. They should be given an “inventory obituary,” at the end of every month (those items with no sales, or dying sales in the past 12 months). This is their list from which to work for the next 30 days. It is their job to make sure none of the items listed on the obituary are still in the vault, by the time the next obituary is printed.

Understand that this person will not be able to get full price – maybe not even half price or cost. Their job is to get something – anything in terms of cash recovery. To pick up a huge gain on these items is not the goal here, but rather it is trying to cut losses and reduce carrying costs. The Dead Stock Manager also should handle all returned merchandise – another pot of cash sitting in many vaults. Many times I hear, “someone will handle that stuff sometime.” But, as most of us know, there is never enough time and usually no one to deal with it. Often it sits and sits and builds! Then someone takes a whack at it every six months or every year. With this specific management area, you have a person whose job it is to turn all that back into cash. They process the returned merchandise credits, and handle the disposition of the returned items. They determine if it should go back into stock, should be returned to the vendor for credit, is covered by warranty, or should be thrown away.

Dead stock will be around as long as distribution exists. There are no easy or simple answers; but, there are action steps that help ease the pain and cash burden. I always ask those attending my seminars to share any creative dead stock disposition ideas. I am encouraged by the creative approaches used – creativity and dedication are key ingredients to success. I encourage you to make dead stock management, using all the steps mentioned as a priority. Hopefully, someday your dead stock manager will work his or her way out of a job. That would be the mark of ultimate success. Good Luck – and, please start now!

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