



# The Distribution Team

We wrote THE BOOK on Distribution Inventory Management

## **We Don't Have It In Stock – Now What?**

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Distributors are always faced with the challenge of having the right stuff at the right time and at the right price. When a distributor does not have what a customer requests, how do we react? Better yet, what is our best action plan to help solve the problem?

Over the years we have worked with distributors on identifying which customers deserve a higher level of service. You can find out how to classify your customers by visiting our web site at [www.thedistributionteam.com](http://www.thedistributionteam.com). Too often when we are out of stock in one location, we look at our other locations and tell the customer we have it there and will transfer it for them. Sounds like a reasonable response unless we are doing this for a non-profitable and possibly a non-paying customer. We always try to get the product to the customer as quickly as possible, but we need to use a little caution before we quickly offer to expend more of the company's money by transferring it.

Teaching your personnel to ask a few critical questions before readily offering up the option of transferring the product can help you save bottom line dollars. For those companies with numerous branches, you might suffer from the classic "inventory on tour" problem. This is inventory that tours your branches but never gets to a customer. We transfer it to one branch but it does not get sold, then another branch wants it and it goes there. Often the customer solves the problem themselves and thus we have inventory on tour. It can be costly to transfer product. It is more costly to put inventory on tour. However, we do it because we want to make the sale.

A few critical questions your personnel should ask are:

- What type of class of customer is this? (A good customer classification method highlighted in your customer master file will help answer this one quickly)
- Is this a customer that has a good track record for paying us?
- Am I going to transfer a product for a customer at or over their credit limit?
- When does the customer need the product? (note: most customer want it yesterday, but you need to figure out when they NEED it)
- Will one of your other products do the job? (This is where a full complimentary and substitute item file in your inventory master file is helpful)
- Will the customer pay a premium to get the product the next day?
- If you have a regular replenishment coming in a few days, can they wait until that truck arrives?

- If you backorder the product, are you sure they will buy it once it arrives? (be careful on backorders of some items, your customer might find it elsewhere).
- If you pass on the sale will it impact other sales?
- Can you purchase the product from a competitor and still make the transaction work?

One of the biggest challenges for distributors is passing on a sale. However, the cost of making the sale must always be taken into account. Let's look at the case where you are out of stock of a particular product on one location (the location your customer called or stopped by to purchase the item). You look and see that one of your other branches has the item in stock in another city. Most often we will simply tell the customer that we do not have it here but we do have it in another location and will transfer it down for them. That is well and good as long as we know the customer and the cost of making this sale. If we have a customer who is not great at paying us, or is on our customer classification list towards the bottom (those that do not contribute to net profit) and we transfer the product, the cost of this sale gets substantially higher. We will pay to have it transferred to us, we will pay to get it out to the customer, we will pay to re-supply the item at the branch we took it from, and we may not get paid from our customer. We have grossed up the cost of this sale without adding any dollars to the price. I am sure we did not ask the customer if they would be willing to pay a "premium price" if we transferred the item and got it to them the next day. In most cases we do nothing to the price but rather just add costs to the transaction and reduce net profit potential. It is therefore critical that all our employees know the difference between a good customer and a "not so desirable" customer. If we can alert them up front about the type of customer (profitable, good paying, low life, etc.) then they can make a smarter decision on how to service them when we are out of the item they are requesting. Maybe passing on this sale for this customer is a smarter move!

We often hear about distributors who struggle with being out of stock. I know that many of the sales people complain that while there are thousands of items in our vault, we never seem to have what "their" customer wants. Is that an out of stock issue, or is that a communication issue between the sales personnel and their customers? We could argue that one for a long time, but if it is a consistent gripe, I would suggest that your sales personnel are not setting the right expectations with the customer as to what you carry in stock. Stock outs are not always a bad thing. What a stock out indicates to you is that people are actually buying what you have decided to put in stock. Now that alone is a good thing. Continual stock outs of items that are fast movers is not so positive. This is an issue with your ordering controls and replenishment cycles. However, taking drastic measure when you are out of stock of various items every so often can create a bigger problem down the road.

When you experience out of stock situations, look at all the alternatives you might be able execute other than placing an emergency order to the vendor. When we react in a drastic measure, like doing a "red label" order to a vendor to solve a temporary stock out, we can actually mess up our next purchase order. If you have items with enough

movement to stock them, you should have a strong corresponding replenishment plan that incorporates some safety stock. If we sell out of an item we should stop and take a look at the next purchasing cycle for the item. We might have some coming already and waiting for that order to arrive is a better alternative. We might look to “buy out” a small quantity from a competitor to solve the temporary stock out. We need to look at the next buy quantity to see if doing an emergency buy now will eliminate us from getting the best per unit buy quantity on our next buy. Reacting without looking forward may very well add costs to this sale and every future per unit cost. Be careful to not overreact when you are out of stock. Ask all the questions possible of the customer to determine how someone in your company will spend your next dollar.

They say that patience is a virtue in life, but in distribution waiting might be more prudent in the long run. Waiting for the item to come in via a backorder might be the right answer. Being out of stock is not the end of the world. The best thing you can do is train your personnel on how to handle an out of stock situation based on the customer they are dealing with. Similar to being a Premier passenger on an airline gets you a first class seat, being one of your premier customers yields a different class of service and a different action plan when you are out of stock.

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