



The Distribution Team

We wrote THE BOOK on Distribution Inventory Management

If It's Really Special Then Treat it that Way

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Trying to satisfy customers in an ever changing marketplace has become more difficult for distributors over the past decade. The new world order of international business happening at the Ma and Pa distributors has put increasing pressure on the inventory mix. Carrying just a few lines that you know very well is no longer acceptable to the technology savvy end users of today. You need to be able to source and outsource products and services just to stay in the game. Along with the products you have chosen to carry in inventory, there is increasing pressure to source more and more special order items.

Special order items have caused distributors headaches for years. They can help take customer service to a new level, but they can also be a source of really dead stock. When customers are looking to buy items that are not part of your normal stocking inventory, you should treat them as special order items. The reason for this is simple; you need to track them differently throughout the entire sales process. They are not part of your normal usage and therefore need to be highlighted as being special. At the order desk or inside sales desk, purchasing special order items at the time of order taking has become very easy. You can electronically see many supplier's catalogs and product offerings. You can find competitive pricing on the same or similar items using the internet. You can search the world in a matter of seconds for product availability and expected delivery date. It almost has become a world of special order items and non-stocks, rather than a true turn and earn distribution business.

I have often thought that one of the premier value added services distributors provide is knowledge. They provide product knowledge to their customers as well as knowledge to help the customers improve their bottom line results. Now they add in the knowledge of special order items because of the wealth of information available from the vendors via on line help and world wide blogs. So now we execute a special order for the customer, what happens next?

Let's start with the good things that can happen. You source a product for a specific customer need. You present multiple options regarding vendors, pricing, delivery and functionality. Your customer is excited about your commitment to them and gives you the go ahead to purchase the product on their behalf. In addition, your staff investigates every aspect of how the product works, what it can do, how to operate it and all the safety issues related to its use. You continue to build customer loyalty, as they now better understand the true value of the customer-distributor relationship. You have once again separated yourself from the competition simply by using the technology, education and

people investments you've made over the years. You have answered the question every customer asks; why should I work with you instead of your competition"?

That sounds wonderful doesn't it! Not only have you provided world class customer service through product sourcing and delivery, you most likely have added a few extra dollars to your gross margin on the special order item sale. OK let's talk about the gross margin for a second. On special order items you should have a minimum gross margin percentage you need to achieve. Look at all the things you did just to execute the special order. It is much more than just sourcing the products; you've invested a great deal of time and effort learning about the product, the vendor, the specifications and proper use of the product. We all know that all of the above value added services are not free to the distributor. So how will you be compensated for the added value investments you've made on behalf of your customer? The answer is that you need to establish a minimum gross margin percentage on all special order items. In addition you need to put a few other requirements in place on special order items. Think about getting some payment up front to further solidify the customer's interest. Think about not allowing any special order items to be returned. Think about getting some commitment in writing from the customer before you start the process of securing the product. Think about any special delivery costs you might incur with the product and how you will charge for those additional costs. Think about sending out a special item order acknowledgement to the customer outlining their total cost that covers your total investment with an acceptable mark up. They should be fully aware of what they need to pay for special order items. If this does not happen, the distributor often eats up the additional gross margin achieved in the special order item pricing with the hidden and unknown costs of product handling. Special order items require thorough understanding by the distributor of what costs they might incur because the item is special.

Now what happens if you sloppily handle special order items? What about the special order items that do not end up in the customer's hands? You know the ones I am talking about, those that were ordered by us for a customer without any customer commitment. We go get the product and when we call the customer to tell them that it is in, they tell us they no longer need it. Or we order the item and when it comes in it does not match up to what the customer expected. Then there is the phantom special order item that no one really knows about and we find it when we do cycle counting. It came in without a tie to a customer specific order and we did not mark it as special when we ordered it. Receiving did not know it was special and just put it in the vault, not knowing what else to do with it.

Special order items need to be identified as special order items from the moment they are ordered. Use the fields in your software designed to label them as such. Don't lump them into the dangerous product class we all use called "class 99". Some distributors just use the item number 9999 for non-stocked items at order entry because that is easier than setting up a special order item in the inventory master file. This can be disastrous. You are taking an added risk just by ordering special items. Then why not go the extra step and set up the items properly at time of order. Mark them in the inventory master file as special order items. You may want to set aside some product numbers that can be

assigned to special order items only. You may want to use an asterisk to mark them as being different. Whatever you do, make them special in your inventory tracking system because they are special.

The reason for taking the additional steps mentioned above with regards to special order items is that your potential for recouping the dollars you invested in the item diminish greatly if you do not end up selling it to the original customer you ordered it for. Many times the special order items are found when the annual, semi-annual or cycle counting is done. Once found as being special and still in your vault, anger and anguish become the norm. Questions like: what is this, who bought this, who was suppose to get this product, and what are going to do with it now are common. This is the wrong time to ask these questions. If you mark the product as special from the get go, you can then track it very easily from the time of order to the time of payment. If you treat it like any other "999" product and just hope it all works out right, you have lost the special-ness of the special order item. So if you are going to deal in special order items, then treat them just that way – very special and very carefully.

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