



The Distribution Team

We wrote THE BOOK on Distribution Inventory Management

It's That Time of Year

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Every December we hear the phrase from holiday well wishers, shoppers and those stressed out by the holiday rush. For distributors this time of year means there are some things we need to get done before the end of the year. We often have a rush of activity at the end of every month, but of the twelve months, this might be the most important. Obviously those companies working on a fiscal year end instead of a calendar year end experience this hub of activity in other months. For many, the year end means we need to get our inventory in line before we embark on next year's purchasing. A few things we should be doing are highlighted below to help "this time of year" be a little less stressful and hopefully the new year a little more enjoyable.

Sales Analysis

This is a great time of the year to look back at the sales activity by product, by vendor and by location to see if there are any changes that would cause alarm. A simple comparison of sales activity by product by location can point out some unique challenges. If you have sales activity in one location that supports a strong inventory level and replenishment, but another location has little activity on the same product, make some replenishment adjustments for next year. A simple comparison of the same product can yield a higher turn and earn throughout the company if you make the adjustments. In one location you are getting some turn and earn return, and in the other location you are experiencing a higher carrying cost because of the product's lack of movement. As will many multi-location distributors, take the time to do some inventory balancing before the end of the year. In other words, take the stuff away from the location where it is not selling and move the inventory to the location where it is selling. You have accomplished a couple of great things with this easy sales by location analysis. If the branch personnel are upset that you are taking some of their inventory and transferring it, simply show them the sales analysis reports to support your action. This is not an emotional decision; it is a cash flow decision.

HITS

Over the year we have talked many times about tools distributors need to use to help them identify inventory that is either moving, slowing down or not moving. The HITS report is a great tool for you to use this time of year to decipher what products should not be part of next year's stocking inventory mix. The HITS report allows you to look at the past year by product throughout the company and see if you are selling enough to

warrant stocking the product. Obviously you will have some products with great movement and they usually fall into the Class 1-3 category, or A and B items. The HITS report can easily point out those items with sales that are questionable. Those items where sales from last year are much higher than this year, and yet we still continue to stock and replenish as if it was last year. We also need to look at the number of times a product is ordered or sold (HIT). When we see products with HITS less than 6 in the last year, we should make adjustments for the future. In other words, we are selling one every other month. Does this make sense in terms of our current replenishment controls?

We should look at all items with HITS of less than 6 per year and analyze our current purchasing controls. It would make sense that we keep the controls very tight, as having excess inventory on hand for these products is a poor use of our money. We should also look at the current quantity on hand and determine a month's supply on hand at the time of the analysis. It is not uncommon that we will see HITS that are low and the month's supply on hand being 2 years worth. How we got to that situation is usually a function of purchasing. We needed to buy it in a certain quantity to make sense from a unit cost standpoint. We also might have had some sales that were going to happen but didn't, and we bought hoping the sales would become reality. We also might have the situation where we did some line buying and to get the vendor minimum we added some of these items to get free freight. We might have had a number of situations causing this to happen, but what is more important is that we identify that it is happening. Once we see what the problem is we can make adjustments for the year ahead. If you have not gotten a copy of the HITS reporting tool, please visit our website at www.thedistributionteam.com and request one. It is a great way for you to smell out products that are slowly losing steam on the sales side. It also looks at the product cost and the quantity we have on hand. When you start to see annual HITS of 4 or less you really need to take some action.

Those products with annual HITS of 4 or less are ones that have been dying slowly over the years. They are terminally ill. They are candidates for future dead stock. They need your immediate attention. We often do not address them earlier enough because we do have some sales activity on them. Often we wait until they are truly dead to make adjustments or take action. Items in your inventory with 4 HITS or less in a year are candidates for special purchasing. They are also candidates for elimination from your stocking inventory. We could eliminate from stock and not suffer any impact on customer service. Notice that I did not say we would not sell them; we would just make them a special order instead of a stocked product. Any items with such few hits run the risk of overstocking because it is hard to buy at that low of a level. When you have multiple locations, the problem gets worse because you have some here and some there, most of which is dead stock but because we sell one or two we don't see it that way. If you took all items with HITS of 4 or less and looked at the current on hand quantity, you might be in for a shock. I have seen items with 2 to 3 years supply on hand based on current activity. So what should we do?

The HITS report is a tool that is run every month to identify those products that are dying on the vine. The report also provides you a great list of "this month's specials". When

you start to look at products based on HITS and current on hand quantities on the same report, you can quickly see items where your on-hand quantity is very high and you need to put it on special to reduce your on hand immediately. It is so simple because it provides a list of items every month that you can start to “spiff”. It might be something you put on your web site as this week’s special or this month’s special. The trick is to reduce the on hand quantity as fast you can, at the same time adjust the replenishment controls so you are not in the same situation with the same product next year.

Dead Stock

In my travels, I ask all my audiences to raise their hand if they have dead stock. I find it sad how fast they throw their hands up. Some even put up both hands, knowing that dead stock is a big problem for them. Dead stock is different than the dying inventory. It has run its useful life in your inventory. Sales have plummeted to a point of no return, yet you still have plenty on hand. The HITS report is used to help you sniff out the dying and decaying products. The Dead Stock report is used to get you to take action that is more permanent. Not only do you want to rid your on hand inventory of the items, you don’t want it to ever creep back into your stocking inventory. Using the freeze code tools in your software can help with that. You also need to communicate to your sales personnel that as of this date, we are not stocking these products. We might still get them via a special order, but we are not going to spend another dime of those products that do not sell anymore. We need to do all kinds of creative things to help get the products out of our inventory by year end if we can. We need to lock down the purchasing controls such that no one should be able to buy those products for stock ever again. As I have told many people over the years, “there are not stages of deadness”!

If you do not have one as of yet, it is time to start the new year with a new dead stock policy. When I ask people about their company dead stock policy it is interesting to see the looks on their faces. Some have a policy or guideline they follow to know when a product is dead. Many have no policy and just keep the products around hoping that someday they will sell. If a product is dead based on your policy, then make it disappear. If you use the no sales in six months policy, then it died on the 1st day of the 7th month. It is dead at that point, and it will not get any “deader” just because you decided not to take action. Now that we are in December, take a look at the activity for the 12 months of 2006 and see if something died this year. If it did, make it a point not to stock it next year, and get rid of what you have on hand this year. Often December is a time when people are cleaning out their inventory of old and dead stock. Why wait until the holiday season? Do it every month using your company dead stock policy as your guide. Even if you used a no sales in 12 months policy that means the 1st of every month could very likely be the 1st day of the 13th month for an item. In other words, the day it died.

Purchasing Budget

Finally, look at setting up a budget for your 2007 purchases. Putting together a simple month by month budget for what you should be spending on inventory establishes a baseline for you to measure against. Sure there are going to be months when you blow the

budget, but at least compare the actual spending the budget and explain the variance. If you know why you blew the budget, it helps you to answer the question at year end as to "how did this get here"? Establishing a budget in the first year is not such an easy task. You will have to look at your stock status reports for the past year and your sales analysis reports to help you. You will need to understand when a season starts and ends for various products. You will need to know when vendors offer specials and deals that might cause your purchasing to increase. But take a shot at it. Put something together as a basis for future analysis. When you have a basis to look at, you can figure out what drove you past the budget at the time it happens, not at year end when you are trying to get rid of slow movers and dead stock.

I hope you find the holiday season a season of action and planning. It is the season to make changes and adjustments so your new year will be more prosperous. Try some of these little things and see if they help in year 2007. It is not a crash diet, but additional fine tuning before year end so you can enjoy a healthier inventory in the years ahead.

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