



# The Distribution Team

We wrote THE BOOK on Distribution Inventory Management

## **Liquidating Dead Inventory: Peer Networking**

**By Jason Bader**

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As I write this article, we are knee deep in the convention season. Most of us like to attend meetings in the spring or fall and very few distributor associations schedule summer conferences. So why do we go to these events? Is it for the seemingly endless supply of free drinks and jumbo shrimp?

After all of the meetings and shows I attended as a distributor, I would have to say that the number one reason I attended the show was to see my friends in the industry. Of course I enjoyed the workshops and tried to pick up a nugget or two; however when it came right down to it, I wanted to hear what was going on with other like minded business leaders. Granted, we talked about the same things every year – margins, hiring, firing, health insurance and who just sold out to the evil consolidator. It was bonding for distributors. These folks were wonderful business conversationalists.

If you have spent any time attending distributor business meetings, you have undoubtedly cultivated these types of relationships. In every association, you can tell who participates in the group. At the trade show, they are the people who can barely make it down the aisle because they have to stop and talk to all their friends. They are the one's who speak up at small group meetings. They are the ones who volunteer to sit on committees. They are also the one's who understand that their industry relationships can help move cash through their business. These are the same people I turn to when I have a dead stock crisis.

If you want to move a lot of inventory in a short period of time, just pick up the phone. I happen to prefer the email route, but it just doesn't have the same literary ring. Reach to those business relationships you have cultivated over so many themed events, Elvis impersonators and crab cakes. You are all in the same business. What are the chances that some of your dead stock may be of interest to one of your colleagues? I'd say it's worth a fighting shot.

A number of years ago, I found myself in liquidation mode with a particular supplier line. We had decided to leave the supplier and move on to a competitive product. Unfortunately, we had been keeping a couple of SKUs in ridiculously large quantity for one customer. We lost the account and failed to put together a contract for the material in the event of a separation. For all you readers out there, this is a really bad idea. I can just chalk it up to distribution tuition payments. Regardless, I needed to get rid of two SKUs. The old supplier was in no mood to consider a return. We jumped the gun with the new

supplier and failed to negotiate a buy out of the displaced inventory. I needed to get out from under about \$20,000 worth of product quickly.

After an appropriate period of kicking myself in the backside, I decided to start dialing for dollars – figuratively of course. I made a list of all the known distributors of the product, which vendor web sites are great for researching this. I picked out a few friends and started my inquiries. I knew that I wasn't going to get what I paid for the material out of my colleagues, so I needed to get over that fact. I had a mountain of inventory clogging the shelves and I needed the problem to go away quick. I set the price at 15% off my cost and I was willing to pay freight. I made it clear that I wasn't in the finance game. I wanted to be paid quickly.

Within a week, I had several responses. I chose the closest distributor and made it happen. Within 3 weeks I had a check in hand and walked away from the deal with approximately 80 cents on the dollar. Not bad in my book. I have subsequently brokered deals with friends over thousands of dollars in seemingly trapped inventory. There have been times where I just needed to reduce some of the surplus due to an overzealous buyer. There are a million different reasons why we need to reduce inventory quickly.

When you start down the path of inventory liquidation, conventional wisdom tells us to pick the low hanging fruit. Rank your dead or surplus list by dollars invested. The items at the top of the list are where you are going to get the largest return on your effort. Dead stock liquidation can be a bit frustrating. Try to pick up some early wins. Use the method I described above. Who else sells this? Do I know any of them? Put your list together and be reasonable. Craft your email such that you are a friend in need of some help. They might be picking up the items at a smoking price, but remember that they are bailing you out of a bad situation. Make the price attractive and be willing to pick up the tab for freight. This will allow you to contact a greater number of distributors outside of your geographic region. Everyone loves free freight.

Perhaps I should mention a word of caution. Some of your suppliers may discourage this practice. I recall a rather testy conversation with the president of a manufacturer. He was disgruntled because I had not tried to negotiate a deal with his company first. It was true. I had found the peer method so successful, that I began to make it my first act in the liquidation process. In retrospect, I should have started with a vendor return. I was still an active distributor of their product.

Leveraging industry relationships is one of the best ways to rid yourself of unwanted inventory, but you have to be in the game. Industry involvement is very important. I doubt that my efforts would have been very successful if I had not been active in the associations we were affiliated with. Industry meetings aren't all about parties, brilliant workshop speakers on inventory management or the latest innovation on the trade show floor. Carve out some time to cultivate relationships. Your industry friends are a powerful ally in the fight against dead stock.

Stay tuned to this series on liquidating dead inventory. Next month, I will be discussing inventory liquidation over the internet – from EBay to your trade association website. Until then, good luck.

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