A Goal without a Time Table is Just a Dream

By Jason Bader

I was recently having dinner with a private coaching client when the topic of dead stock liquidation came up. We were discussing his potential expansion plans and how to fund them. After doing a little dirty math, we figured that he had at least half a million dollars in unproductive inventory rolling around the company. Fortunately, a majority of the dollars were located in the headquarters, so transfer expense would not be an issue. We began to make plans about how to best liquidate the product and who should be responsible. While we were counting dollar signs, it became blatantly apparent to me that we had forgot one major component of any good plan – the timetable.

When I pointed this out, my client paused for a minute and offered up a quote he recently heard on the television show "Shark Tank". Robert Herjavek, entrepreneur and one of the panelists on the show, told a participant, "A goal without a timetable is just a dream". While I am not a real fan of the program, too many egos, I can appreciate the wisdom of this statement. We may have had the goal of converting the half a million dollars in dead stock into investable cash, we had not really discussed a timetable to make this happen.

When creating a dead stock liquidation plan, the first thing any company needs to do is get their arms around the problem. Just how much money are we really talking about here? What percentage of your overall inventory does this represent? Most distributors, when they are really honest about it, find that 10-15% of their inventory is dead or dying. Now I am not talking about surplus inventory here, trust me, I am certain that you can find a substantial amount of money in overstock. For the purpose of this discussion, let's just stick to the products that your customers have lost interest in.

I am often asked what a healthy percent of dead stock is. While healthy dead stock is an oxymoron to the highest degree, I think a realistic percentage is something we can aspire to. A realistic percentage is predicated on a couple of things. First, you must define the date of death. The most common definition, for hard goods distribution, is zero sales in 12 months. A company with a definition of zero sales in 18 months would have a different acceptable percentage than one with six month date of death. Second, we need to determine if slow inventory is regularly being pushed into the dead stock bucket. I like to consider any item with fewer than 4 transactions in 12 months a candidate for non-stock status. If a company takes a proactive approach by regularly discontinuing these low hit items, their dead stock percentage will be much larger.

Now that we have the consulting caveats out of the way, I would suggest that most distributors should shoot for dead stock percentage of 3 percent or less of overall inventory value. Now that we have a goal, how long should it take to get there? Depending on the severity of your problem, you will probably not be able to achieve this goal in one fiscal year. Let's be realistic here. It took you a very long time to get in this position. Undoing years of bad habits will not happen overnight.

Once we have defined the scope of the problem, a more realistic approach is to shoot for cutting the percentage in half within a 12 month period. If the company is currently sitting at 12 percent unproductive, then we should set a goal of getting down to 6 percent within 12 months. This may not be as easy as it sounds. If you start to regularly kill off the slow movers, the percentage may temporarily grow. Although this sounds counter intuitive to the overall plan, proactive measures will pay large dividends down the road. In the second year of the program, you should try to cut the percentage in half again. In our fictitious scenario, the goal at the end of the year would be 3 percent. Does this mean that you have to stop at 3 percent? Of course not. You can continue to make efficient use of your inventory dollars. In fact, there is no reason why you can't shift your cash recovery efforts to reductions in surplus. The nature of distribution will always provide the opportunity to turn unproductive inventory back into cash.

Over the years, I have met several distributors who do a very good job managing dead stock. They all have one thing in common – a central point of accountability. In other words, they do not manage their unproductive inventory by committee. When the responsibility of managing dead stock is spread over many, than no one has to be accountable. Furthermore, when we place that accountability in the hands of someone who already has a full time job, the cash conversion results will be dismal. Intentions will be good, but dead stock just tends to fall low on the list of priorities. I have found that the really successful companies make the cash recovery effort the primary responsibility of one person. Now they may enlist the services of several other team members to liquidate the inventory, but the buck stops here.

Dead stock manager isn't the coolest title ever granted in distribution. Not something that you are going to go home and brag to the spouse about. On the other hand, the function is essential to resource management in distribution. I generally like to create an incentive based compensation method for the hunter of cash. I have seen people pay anywhere from 10 to 50 percent of the recovered dollars to this manager. The high end of the spectrum was given by a client who had inherited a bunch of junk with a recent acquisition. Although he didn't pay anything for the inventory, he had to rent an auxiliary warehouse at $3000 per month to house the junk. His incentive was to get out from under the monthly rent. The 50 percent he picked up on the liquidation was just found money. Remember, for an incentive to work, it has to be meaningful. Sorry, 2 or 3 percent just isn't going to cut it. If you want meaningful change, you are going to part with a little bit of it.

A good dead stock manager, or cash recovery agent if you prefer, will help you meet an aggressive timetable. It is important to bring them in on the planning side. Set out realistic goals and make sure to check in on a monthly basis. There will be bumps and obstacles along the way. We don't want to get caught flat footed at the end of the year. Good plans give the participants the ability to make adjustments.

Although I am applying the timetable quote to the management of dead stock, I am sure that you see the universal application. Whether it is a sales goal, a new location or learning a new language, be sure to set a timeline or it will never happen. Before I let you go, I will leave you with a Chinese proverb to help you solidify the success of any endeavor, "The faintest ink is more powerful than the strongest memory". Good luck and I am always here to help.

Jason Bader is the managing partner of The Distribution Team, a firm that specializes in helping distributors become more profitable through operating efficiencies. The first 20 years of his career, were spent working in distributor operations. Today, he is a regular speaker at industry events and spends much of his time working with individual distribution companies. For more information, call (503) 282-2333 or contact him by e-mail at Jason@Distributionteam.com. Also visit The Distribution Team's website at www.thedistributionteam.com.