



The Distribution Team

We wrote THE BOOK on Distribution Inventory Management

Your Products Have Changed, But You Haven't

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The Distribution Team

I recently had the opportunity to spend some time with a nursery wholesaler. These are the folks that cater to the commercial landscaping trades. Like all distributors, they found themselves having difficulty communicating with suppliers and choosing the most appropriate vendors. We talked about line consolidation, freight issues, and general buying best practices.

Over the course of the visit, I kept noticing that they kept referring to how they buy the plants and trees. They talked in terms of yard layout and how to get the green products off the trucks or on the trucks. In fact, every issue we discussed was framed in how they handled the “green” side of their business. This seems logical because I was working with a company focused on the distribution of plant material. The only problem was that 2/3 of their revenue came from hard goods. Their products had shifted over time, but their perspective remained in the past.

As I continued to work with this distributor on how to manage a less perishable inventory, I kept wondering if this was something that all distributors face. Does one segment of the overall product mix dictate how we make decisions affecting the entire range of items we stock? In this example, the company was clearly trying to treat every supply challenge as if they were buying perishable plant stock. The words free freight, or freight minimum, were foreign concepts to them. You mean that we don't have to pay freight on our pumps and irrigation materials? If you buy them right, probably not.

Take a look at your own organization. Are your purchasing habits based on a specific category? Do you set up the primary stocking locations based on an outdated business model? Have there been changes in the source of revenue? Does the management team reflect the longevity of the organization? Old habits die hard.

Industry Type

There are some industries that may be more susceptible to a dominate inventory segment. Industries that rely on early buy programs, like the heating and air conditioning market, will probably be heavily influenced by the dominate category. When asked about the seasonal nature of their product, these distributors generally say that everything fits that category. When they actually go back at look at the selling patterns, the distributor will find a large portion of their overall inventory does not behave in a seasonal manner.

Industries that rely on a calendar selling cycle, such as residential construction, will often identify a majority of their business as seasonal. This influences the way that they move

inventory levels and can result in stock outs during the traditional non-seasonal months. The intuitive selling perceptions force the distributor to make uninformed stocking decisions.

In the fastener industry, the dominance of bulk products and importing practices can pull the distributor away from a more prudent domestic source. I recall a visit to a fastener distributor where the CFO and I mathematically proved that it was more expensive to use an off shore supplier. The sales people, and the president, were convinced that the company should make these large container buys for a 6% lower unit cost. In this case, the carrying cost would have made the purchase less profitable. Again, the majority of the business focused on buying containers, so the perception was rooted in the mind of the buyers.

In the beauty supply business, anything with color tends to be very volatile. I worked with a distributor who was heavily focused on the nail salon industry. One of the biggest challenges comes from the media. When someone appears on Oprah with a new shade of polish, your sales patterns can change overnight. Try stocking for that demand. This forced this supplier to be very hands on with his buying. This method infiltrated his entire stock purchasing. Only 25% of his sales actually came from polish, but this inefficient method washed all the way through the inventory.

I am sure that there are several other industry examples out there. I encourage you to look at your own to see if these perceptions exist.

Product Mix

Has your product mix changed over time? Many distributors started out catering to a specific trade or customer type. Over time, and perhaps generations, that customer base has evolved. In the electrical supply business, low voltage contractors were not part of the traditional customer base. This is an example of how changes in technology can create an entire category for a supplier. How do we alter the way we buy for a new customer base? Is it always compatible with our existing replenishment methods?

I recall when my former company acquired a distributorship focused on concrete accessories business. We were a commercial contractor supply company. How different could the two be? Let me tell you, the headaches were immense. The concrete world tends to work in bulk and full truckload shipments. We had never been forced to deal with these buying parameters. We were trying shoehorn these new product demands into our existing buying parameters. Ultimately, the fit was so uncomfortable that the unit was sold off.

In the landscaping example, the customer had not changed. The breadth of product that the distributor was supplying had changed. It had changed to a point where the hard product became the majority stream of revenue. This is an example where the purchasing methods had to be split between the green and hard products. By separating the two functions, hard products could be purchased more efficiently using traditional indicators like lead time, review cycles and safety stock.

At your next management team meeting, pose this question to your group, “Does one segment of our product mix dominate the way we handle all the products in our offering?” Cite some of the examples in this article and look for the similarities. You may not distribute plants or nail polish, but distributors tend to more alike than you think.

Good luck.