

DEALING WITH A TIME OF SCARCITY

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If I am subjected to phrase “new normal” one more time, I think I might just have to lose my lunch. The term “unprecedented” is also a stomach turner. I guess my inner cynic is coming out to play. I am growing very weary of people trying to rationalize the very real experience of change, challenge and unpredictability. These are just situations we face when we own, or lead, a small business. The playbook is never written to cover all scenarios. Strategies break down, disruption occurs and creativity emerges. Is it really that simple? Is my high-paid consulting advice to you “Just deal with it?” Yes and no. First, get we need to get comfortable with the nature of change; then, we break out solid strategies to put us in the best position to thrive in the chaos.

In the past several months, we have become introduced to a fairly new concept of scarcity in both our personal and professional lives. In the earliest days of the pandemic, we were exposed to empty shelves a whole lot more space in traditional retail establishments. I remember a particularly creepy feeling when the frozen section of Trader Joes was practically empty. Here, in one of the most prosperous nations on earth, we couldn't buy frozen pork buns or mango chunks. Our paper hygiene products were being hoarded like gold and people were googling “Bidet” in record fashion. Personal scarcity is scary and causes irrational behavior – like cooking without a microwave.

In our professional lives, we began to realize that “just in time” might just come to mean “just in trouble” when looking at the products on our shelves. Those in love with spinning inventory

at the upper end of the spectrum learned that just because a purchase order is generated does not insure that products will appear at the dock. Again, not something that most of us have ever experienced. Cut PO, load shelves, deliver to customer. Man, we didn't know how good we had it.

Enough of the waxing nostalgic and pointless observations on what happened. Yes, it got tougher to run the business. We all need to channel our inner Billy Ocean and remember “the tough get going”. You can thank me later for that song running through your head all day. Those of us who have been through a couple of business cycles (probably the same crowd that knows who Billy Ocean is) understand that the ability to adapt comes from some lessons we learned while getting our teeth kicked in. These became core fundamentals to getting through difficult situations. In the remainder of this opinionated document, I want to share a couple of focus areas for distributors to revisit as a means to help them deal with this lack of available product.

Better Communication with Suppliers

Doesn't it feel like the answer to all of life's challenges is better communication. I think I could make an argument that it is, but I would rather get more specific in the way we communicate with our suppliers. For some reason, many distributors have difficulty communicating their expectations with their suppliers. This is especially true in inventory replenishment and availability of product. In our distribution software packages, we have the ability to make educated guesses on the quantities

our customers will consume over the next six months. I am not suggesting that these predictions will be perfect, but we can get pretty darn close. If we can do this, why don't we share it with the companies that are going to be supplying the product? If you answer my question, “because they don't ask for this information”, you deserve to run out of inventory. Take control of your inventory flow. Share your usage predictions with your key suppliers and help make their crystal ball a little less hazy. Some distributors will even issue purchase orders with specific release dates to better insure their flow of inventory. News flash to some, old hat to others.

Understand the Product Expectations of Your Customers

While we are doing a little data mining, the next area of focus is predicting what products your customers will most likely be buying in the future. If you agree with the notion that we put inventory on the shelves to satisfy the needs of our customers, then why don't you take the time to understand what products are most popular with our customer base? Over the years, many of you have read and heard me rattle on about ranking your inventory by hits versus cost of goods sold. In times of uncertain availability of product, we need to get back to the basics of insuring that our most popular products are going to be on the shelf when the customer comes calling. Now is not the time to let fear prevent you from doubling down on the top-ranking products. If you have not done this before, go back and rank your items by the number of transactions over a 12-month period. Just to clarify, an order quantity of 100 has the same

weight as an order quantity of 1000. Each is recorded as one hit. You will find that a vast majority of hits occur in a relatively small percentage of your overall stocked items. Don't run out of these items, period. Know what is important in the eyes of your customer and get those products on the shelf. Barren shelves in a wholesale warehouse is just as scary as your favorite grocery store.

Know Who Your Best Customers Are

Beauty is in the eye of the beholder, right? When it comes to our love for certain customers, we often have differing opinions on who the best ones are. Some like them big and loaded with potential. Others prefer that buy in several of our product categories and carry a strong average gross margin percentage. I happen to like the ones that pay on time and don't place orders 5 minutes before the close of the day, but that's just me. Regardless of the various peccadillos, we all love customers that are profitable. When I say profitable, I am suggesting that they contribute to our bottom line in a positive manner. Determining the profitability of each customer is an exercise that I encourage every distributor to engage in. It isn't fun. It isn't glamorous. It will probably reduce a few of you to tears, but it is important to the health of your organization.

As many of you have discovered, allocation of product is a real thing. We don't always get what we want from our suppliers in the quantity we want it. Product allocation, from a supplier standpoint, means that decisions are made to ship inventory to customers they value most. Hate to break it to you, but these suppliers have made decisions about who they like the best and you might be on the outside looking in. Fair doesn't apply when allocating product. It is time for

distributors to start adopting the same tough standards when allocating scarce products. We do not have to abide by the back order fill protocol of "oldest orders first". I say we start rewarding our most profitable customers by filling their orders ahead of those who develop alligator arms when our invoices come due. Those who contribute to our bottom line are just better. Treat them as such.

Although I suspect that we will get back to the days of abundance in the next 6-8 months, I would hope that the lessons of scarcity remain fresh in our minds. Treat your operation as if scarcity was right around the corner. We call these strategies "fundamentals" because they will allow you to thrive in any economic climate. Now go make some changes while I don my mask and wait in line to buy my Trader Joes pork buns. Good luck.

About the Author:

Jason Bader is the principal of The Distribution Team. He is a holistic distribution advisor who is passionate about helping business owners solve challenges, generate wealth and achieve personal goals. He can be found speaking at several industry events throughout the year, providing executive coaching services to private clients and letting his thoughts be known in an industry publication or two. He recently launched his first podcast, Distribution Talk. Episodes can be found at www.distributiontalk.com. He can be reached at (503) 282-2333 or via email at jason@distributionteam.com. You can find additional resources on his website: www.thedistributionteam.com