DON'T BE BLINDED BY THE TRADE SHOW LIGHTS

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THE DISTRIBUTION TEAM

Everybody loves trade shows. Strike that. Those who do not have to work in the booths for several days love trade shows. For those who roam the aisles, trade shows are usually really fun places to be. You get to see the latest and greatest from your favorite manufacturers. The competition heats up to grab your attention – attractive spokespeople, drawings for trips to exotic places, things that make loud noises and bargains that will knock your socks off. This is the modern state fair for the wholesale distributor. Through all the hoopla and fanfare, we must keep a level head when we are considering opening up the company wallet.

Don't Let Your President Walk the Aisles Alone

I mentioned in a recent article that the number one purchaser of new items is the owner. These are dangerous people. They are salespeople with checkbooks. All kidding aside, most owners are entrepreneurs. They see potential in everything. Remember, they hired us to make sure that they did not spend themselves into oblivion. We need to be the voice of reason. We talked about this in a recent seminar and one gentleman slowly let his gaze drop to the floor. He is the president of his company and he had brought on this new line of hammers that would "fly off the shelves". He confessed that one year later he was still sitting on his initial purchase. Take my advice, carry a cattle prod with you. The minute your president says "We will make a ton of money selling these…", hit him with a couple of volts. The rest of the company with thank you later.

Have I Got a Deal for You

It just isn't a trade show without a show special. Typically, a manufacturer gives you special discount valid only on the show floor. You are sent a flyer in advance with all the special deals; but you must place the PO at the show. This is a little trick to make sure that you make it by the booth. Most of us have not had the ability to write a PO on the floor of a trade show for many years; but somehow the tradition stays in tact. The question of the hour is how do we take advantage of the special?

Try putting "a bunch of" or "tons" in the quantity column of your next PO. Send it off to the manufacturer and see what happens. Dangerous thought. At some point in our purchasing career, we have all been faced with this situation. How do we best take advantage of a promotional price while not overloading our shelves? Fortunately, there is a relatively simple formula to get you in the ballpark.

Bring Plenty of Ammunition

Let me give you a couple of hints when buying at a show.

If you know that you will be encountering some special deals, bring along a stock status report. This will help you know what you have at the time of the show. Understand the turn and earn for the line under consideration. Compare it to similar lines if you have a question about the products in question.

Understand where your current order points and line points are for the line under consideration. This will help if you must make a quick decision. The trick is to be prepared to take advantage of any opportunities coming your way. This information is a very powerful when you are invited to an "off the floor" meeting with a supplier.

Do the Math

Before we go into the mechanics of the formula, we need to have an understanding. Are we buying at the special price to make some additional net income for the company? Or, are we buying at the special price so that we can pass along the savings to our customers? If we are trying to make a great buy for the company, don't tell the sales team. Don't adjust the cost basis. Just let it ride on through to the bottom line. Let's assume for the point of discussion that we are trying to earn some extra net profit for the company. Show specials on items with good usage are a great way to earn extra income for your organization.

When we choose to load up on inventory (invest the company's cash), we need to understand that we have entered into a speculative buying situation. When we incur risk, we deserve to get a little reward. Our goal is to get a nice return for risking some of the company's cash. This is referred to as Return on Additional Inventory or ROAI. I am going to suggest that we shoot for a 40% return on our additional investment. If the prices and the usage remain constant, we will walk away with a decent return.

Our end goal is to come up with a number of months usage to buy above the line point. The line point refers to the moment in time when an item becomes a candidate to be purchased with other items from the same vendor. I don't have the space to go into a lengthy discussion of line point in this article; but I would be happy to explain it in detail if you contact me.

In order to come up with the months supply, we can use this simple formula. Multiply 24 times the discount percentage being offered by the manufacturer. We divide that by the sum of the desired return on additional inventory (ROAI) plus the cost of carrying inventory (K).
For those of us who relate better visually:

24 x Discount %
Months to Buy above Line Point = --
ROAI + K
In this example, let's assume that the discount offered is 10% and your K cost is 25%.
24 x .10
3.69 months = --
.40 + .25

This example suggests that we examine all of the items offered in the promotion. We purchase just 3.7 months of surplus inventory to gain the desired returns on our investment. Be careful that you are only taking the inventory level up to 3.7 months above the line point. We must deduct any quantities that we already have on order and we must deduct any quantities that we currently have above the line point. By using line point as our indicator, we will automatically be buying more fast moving items. They will have the greatest tendency to be near or below line point.

Create a Way Out

Before we place the purchase order, we should try to hedge our bet just a bit more. Since we are bringing a larger quantity of product into the inventory, let's try to pick up some insurance from the manufacturer. Before we place the order, let's know what our options are if the inventory goes bad. Conditions change without warning. I would try to negotiate a no-penalty return after 6 months. A one for one stock adjustment would be an acceptable compromise.

This may seem like a cumbersome exercise; but with the right software and little effort, you will be able to hand over that purchase order with confidence.

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