



The Distribution Team

We wrote THE BOOK on Distribution Inventory Management

Now is the Time to Sharpen the Saw (Part 1)

By Jason Bader, Managing Partner

The Distribution Team

A few weeks ago, I had an interesting conversation with a childhood friend who just happens to be one of my distribution clients. We were at a wedding and started to talk about his business. I know that his revenues were down considerably and the order activity was slow. He mentioned that he has read a couple of my past articles and those from other industry consultants. He said that he was finally getting a chance to catch up on his strategic thinking. Now that he isn't running around like a chicken with his head cut off, he is taking advantage of the slower pace to position the business for an eventual economic turnaround. Now is the time to sharpen the saw.

I have been hearing a lot of negative comments about business in general, mostly from talking heads in the media. I read about negative statistics and indicators in the news. The airwaves and even my inbox is full of negative reinforcement. Fortunately, on Main Street, I have found a little optimism for the small business owner. Rather than worry about things you have little control over, concentrate on making strategic changes where you can.

Dust off that old operations manual and start looking at your business practices. Did the abundant sales of the last few years cause you to become sloppy? Have you developed a little spare tire around middle management? Now that you aren't struggling to keep up with the order process, it's time to whip that business back into shape.

Rather than becoming overwhelmed with the whole organization, start looking at functional pieces. Since the majority of my background and experience resides in distributor operations, I will confine my thoughts to these areas. Believe me, there is no shortage of people who will tell you how to improve sales. I just don't happen to be one of them.

Inventory Accuracy

Wouldn't it be way cool if what the computer said we had on the shelf was actually what we had on the shelf? Crazy thought. Most of us think our accuracy is pretty good because our dollar variance was minimal when we took our annual count. Dollar variances are for bean counters. Don't get me wrong, I respect the accounting side of any business. I just think that dollar variances are misleading. We should look at unit variances to get a more honest snapshot of accuracy.

Go out into your warehouse and count 50 items at random. How many of your counts were exactly what the system said you should have on the shelf? I would venture a guess that your accuracy percentage is a lot lower than you thought. Many distributors have accuracy around 50 or 60 percent when we measure the hard way.

Inaccuracy in inventory hurts you in several ways. It will force your customer service people to go count the shelves when a customer orders a quantity close to what the system says we have. If you don't believe me, just ask your people. Bad counts can hurt you from the buying side as well. What are all the replenishment calculations based on? Chances are your buyers bring in a little extra because they don't want to be caught short if the system was off. Sales people don't climb up their backside if there is a little surplus on the shelf.

If you don't want to continue subsidizing these practices, implement a cycle counting program. Annual inventory counts are wrought with inaccuracy. The only way to truly take charge of your shelf stock is to inspect the shelves on a daily basis. My former business partner used to refer to cycle counting as "penicillin for the distribution industry". It is amazing how many ailments this discipline will cure in your warehouse.

Surplus Inventory

Most distributors have at least 30 percent more inventory than they will ever need to achieve a very high customer service level. The biggest problem is that we have not taken the time to analyze where to trim the fat. One of the biggest concerns is the surplus found in our slow moving items.

I tend to find surplus in items with fewer sales hits in a calendar year. Hits should not be confused with units sold. I am referring to the number of times the item in question appears on a sales order. A solid indicator of excess inventory is the number of months on hand.

Start by running a list of items with fewer than 10 annual hits. Next, analyze how many months of inventory you have on hand for each of these unpopular items. Zero in on those items with more than 6 months on hand. Finally, rank these items by current dollars invested. Your targets will be at the top of the list.

Take a look at where you set your safety stock levels. Are you applying safety stock to items that your customers are not interested in? I would argue that half of your stocking items do not need any safety stock. Run a hits ranking and target the items on the bottom half of the list.

For those of you with branch locations, look for surpluses caused by manufacturer buying requirements. I would often find that the manufacturer required me to buy 12 of a certain hand tool at time of order, but I was only selling 1 or 2 per month. Would it make more sense for me to bring in fewer of these items via transfer from another location? It has been my experience that you will find your greatest pockets of surplus the further away from the mother ship you go.

Branch location surpluses can add up when we are trying to replenish directly from the supplier. Freight prepaid levels can be a large contributor. Do freight prepaid levels have to be the same at all your locations? Several years ago, I successfully negotiated a reduced freight prepaid for my smaller locations. In return, I increased the target level order, essentially giving them a higher freight prepaid, for my larger locations. Not every supplier will have this kind of flexibility, but all I did was ask.

In the second part of this article I will touch on a couple more areas that require your attention. Take advantage of this time to position yourself for the eventual change in economy. Do the work now and you will be miles ahead in the future. Good luck.

Jason Bader is the managing partner of The Distribution Team. He spent the first 20 years of his career working in distributor operations. His firm specializes in helping distributors become more profitable through operating efficiencies. He is regular speaker at industry events and spends much of his time working with individual distribution companies. He can be reached at (503) 282-2333 or Jason@Distributionteam.com. Additional resources can be found on his website at www.thedistributionteam.com.

This document was created with Win2PDF available at <http://www.win2pdf.com>.
The unregistered version of Win2PDF is for evaluation or non-commercial use only.
This page will not be added after purchasing Win2PDF.