



# The Distribution Team

We wrote THE BOOK on Distribution Inventory Management

## **Now is the Time to Sharpen the Saw (Part 2)**

By Jason Bader, Managing Partner

The Distribution Team

As the name implies, this is the conclusion of a two part article. If you missed the first part, feel free to email me and I would be happy to send it your way. The main premise is that when your business slows down, you have the opportunity to put down the firefighter helmet and think strategically. Many of you have back burner projects dying for attention. Take advantage of this time to devote some hours to long term change. Here are a couple more areas to consider.

### **Dead and Slow Moving Inventory**

The fastest way to get cash back into the business is to liquidate dead and slow moving inventory. As I write this, I am heading off to work with a client whose financial partner is forcing them to liquidate dead stock. Don't wait for someone else to force you into this situation. Take advantage of this lull in business to create a perpetual dead stock management plan. For many of you, 10 to 15 percent of the dollars you have in inventory are dead or on the death spiral. What could your business do with that cash in hand? How much more efficient could your warehouse folks be with all that space?

In order for a perpetual program to be effective, I believe that you need to have one person in charge of the effort. This should be their primary purpose in your organization. I have seen too many programs fail because the task is assigned to someone who already has a full time job. This kind of thinking will only cause dead stock management to become a back burner task. This job requires the liquidation of inventory. It should be compensated like a sales person, but not report to sales. Pay the person a commission on dollars recovered. Don't worry, the monthly liquidation job may get smaller over time, but they will never run out of things to do.

Part of any perpetual dead stock program is anticipation. We want to sniff out items before they actually die in our system. Use ranking reports, such as the hits report, to identify those items that are losing favor with your customers. Wouldn't it be great if we could stop writing checks for items before they actually died on the shelf? My general rule of thumb is to target anything with less than 4 hits per year. Is there a compelling reason to continue stocking the item? Do we have a contractual agreement with a customer? Is it a repair part for something we sell regularly? Does it have an extraordinary high margin? Is it that odd size that fills out the display in the showroom? If you can't find a solid business reason to keep the item, get rid of it.

### **Variable Compensation**

Which department typically gets variable compensation? We often spend long hours coming up with intricate plans to motivate our sales people to push products out the door. In many companies, this exercise is often repeated every one or two years because sales people learn how to beat the system. I often wonder how productive our businesses would become if the sales people would concentrate on selling product rather than manipulating commissions.

The first group I would look at is the material handling team. I find it ironic that we the lowest paid employees manage the largest cash asset in our companies. Some things may never change, but we can do something about how they are compensated.

Take some time to write down all the areas we want the material handling team to focus on. Where are we currently doing a good job and where are we lacking? Could we design a variable compensation program to focus on the areas we just identified? It doesn't have to be overly complicated. Contrary to popular belief, these folks are not as devious as the sales team. I suggest that you come up with 4 or 5 criteria to measure. Make it a team goal. Equal payout will promote self policing and reduce management oversight. Above all, make sure to pay this out on a monthly basis. Behavior will not be affected if you try to pay this annually.

Now that you have warmed up to the idea of a variable comp plan for other departments, take a look at your purchasing team. Do you have buyers of stuff or investors of company money? Buyers of stuff perform a clerical function. Investors of company money look for a return on investment every time they generate a purchase order. Compensation will help assist the transition.

My three favorite performance criteria for an investor are: inventory turns, customer service percentage and gross margin return on investment. Setting goal and rewarding improvement in these three areas will bring your company tremendous returns. Your customers and sales people will love the new focus. You can always add a couple more criteria, but try to make the program simple. Simplicity breeds success. Again, make sure to pay this on a regular basis. Monthly is great, but quarterly is acceptable.

Challenge yourself to look at other areas of the business. Can we do something in accounts receivable? You bet. Remember, credit is an extension of sales. Better credit managers will actually drive more sales through the door. Walk across the hall to payables. Is it important to negotiate cash discounts and dating? Be creative.

## **Review Energy Consumption**

Being green is all the rage in the building industries, but does it have a place in distribution? Absolutely. We just won't get overly obsessed with the notion. Reducing energy consumption can have a solid impact on your bottom line.

I just had the opportunity to attend the independent lighting distributor convention. I love seeing what is out there. Most of all, I love looking for cost reduction opportunities for my clients. You would not believe what can be done with warehouse lighting. We are talking about cost reductions of 40%. If you have an older lighting set up in your facility, I urge you to talk to

lighting professional. With the state and federal incentives out there, payback is calculated in months, not years.

For those of you with your own fleet of delivery vehicles, it might be a good time to upgrade to more efficient designs. Not that I want to take advantage of the challenges in the auto industry; but maybe you should take advantage of the challenges in the auto industry. I know companies who recently purchased replacement vehicles for 30% less and were able to take all the depreciation in the first year. Just something to ponder.

Hopefully I have started your creative juices flowing. As the leader of your organization, or your department, take some time to plan for the future. You can either sing the blues about a down economy or take this time to sharpen the saw. As always, I am here to help. Good luck.

**Jason Bader is the managing partner of The Distribution Team. The Distribution Team specializes in providing inventory management training, business operations consulting and technology utilization to the wholesale distribution industry. Jason brings over 20 years of experience working in the distribution field. He can be reached at 503-282-2333, [Jason@distributionteam.com](mailto:Jason@distributionteam.com), or at [www.thedistributionteam.com](http://www.thedistributionteam.com).**

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