



The Distribution Team

We wrote THE BOOK on Distribution Inventory Management

The Price is Wrong!!

By Jason Bader

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Last week, I was working with a client down in Florida. It was a typical business review where I visited several different departments and listened to their questions and concerns. When I sat down with the payables department, I encountered one of the most common challenges in distribution – making sure that we have the current pricing from our suppliers in the software system.

I am sure that the editors are shaking their head, “You are reaching on this one, Bader...” For those of us who have spent time working for a distributor, this seemingly simple task can be a formidable challenge. I have seen distributors who are months behind on price changes. Even missing a week can cause a great deal of time lost in mistakes and reconciliation. In this article, I will point out some of the consequences of letting this task slide. I will also give you some suggestions on how to stay ahead of the game.

As I mentioned earlier, this problem reared its ugly head in the accounts payable department. This individual was forced to spend an inordinate amount of time tracking down discrepancies. The invoices she was receiving from the suppliers would not match the pricing on their internal purchase orders. Rather than just blindly pay the invoice, she would be forced to track down the buyer and verify that the pricing was correct. Given that the company was cutting purchase orders to this supplier on a daily basis, the amount of reconciliation was getting out of hand. Now we have two departments spending resources on this problem.

First, we have added labor dollars in the payables department. They must stop the flow of work and point out the discrepancy. Next, the buyer must get involved to determine what the correct pricing should be. More often than not, this requires communication with the supplier. Since most buyers don't have a whole lot of extra time on their hands, the discrepancy usually winds up in the “get to it when I can” pile. We have just added labor hours to the purchasing department.

The resolution of discrepancies between purchasing and payables is rarely a one day turn around. Unfortunately, corrections can often take days or even weeks depending on the amount of volume. When a payables team is unable to process an invoice in a timely manner, we often lose the opportunity to take advantage of early payment discounts offered by the supplier. If you have read my article on the perils of skipping cash discounts, you will realize that our internal problems have just cost the company a ton of money. Even worse, we probably had the ability to pay early.

As you might have guessed, failing to update vendor pricing can have adverse affects on sales and profitability. When do we get the opportunity to go back to our customers and ask for a retroactive price increase? Many of our sales people sell from cost up. They look at the gross margin percentage, because that is how compensation is typically determined, and price based on an acceptable margin. Unfortunately, the products they just sold have a new replacement cost. If the bump was high enough, their margin could be chopped in half. Those of us who have been around a while have seen this happen time and time again.

Obviously, we need to put more emphasis on getting the pricing in the system prior to any scheduled increase. The main reason that we tend to slack in this department is due to the amount of labor associated with the task. Imagine manually updating the pricing on a line with 1000 skus? Not only do we have to update the list price, but we also have to make sure that our net cost is calculated correctly. Our discounts from list may have changed. All of these things have to be reviewed and then entered. What is the acceptable number of mistakes on 1000 skus? I am sure that we are going to have a few of those. All that time spent and we still have the potential for some costly mistakes.

In order to alleviate some of this headache, I want you to start importing your price adjustments electronically. Most modern distribution software has this feature. The most common method of import is from a spreadsheet program like Excel. In most applications, you map columns from the spreadsheet to fields in your item database. It is important to ask the supplier for multiple columns of information. The basic columns should be: manufacturer part number, general description, shipping weight, UPC code, list price, our discount multiplier and our net cost. Even if you do not use bar-coding in your operation, the UPC will often become the common link between your database and their spreadsheet. It is fairly common for our part numbers to differ from the manufacturer part numbers.

You may also want to add additional columns that make sense in your database: size, color, master carton and cubic volume are some examples. I am sure there are several more. Once you have determined the columns you require, make it a standard for all suppliers. Give them a document explaining which columns to use and why you now require electronic price updates.

You will be surprised at how many suppliers will have no trouble meeting your request. We just haven't taken the time to ask. Make sure that you ask for the electronic document in Excel. I am not here to make Microsoft any wealthier. Excel has just become a standard that most people can work with. I have seen vendors send price lists in .pdf format. This defeats the purpose. You cannot easily import this type of electronic document.

As for the vendors who seem to have some trouble with your request, you need to review the relationship. Are they a critical part of your business? Sometimes we need to help them along the technology path. Even if your sales rep has no clue how to accomplish this task, more than likely their controller can help. Be relentless. I have often considered charging suppliers for the labor associated with updating prices manually. You may not get it paid, but it would show them you are serious.

I would be remiss in not mentioning another option when it comes to updating pricing. In some industries, there are services that accumulate database information from suppliers. These services translate the vendor information into your specified import format. You will obviously have to maintain your own discounts. If this sounds appealing, check with your trade association or software provider to see if there is something available out there.

In order to tackle this challenge, my company appointed a pricing guru. It was one of the best decisions we ever made. Not only did this person manage all incoming price updates, but he set up all external pricing via a matrix. Most software has extensive pricing and costing functions, yet we rarely tap into the potential. You can typically pre-load a price increase and then let the system know what date the new prices become effective.

This may seem like a trivial problem to some, but each year it costs our companies thousands of dollars in wasted labor and missed margin opportunities. We need to make vendor price updates a priority before we spend a whole lot of resources correcting the discrepancies. Good luck.

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