



The Distribution Team

We wrote THE BOOK on Distribution Inventory Management

The Master Distributor: Your Auxiliary Warehouse By Jason Bader, The Distribution Team

I used to ride with a salesman who would answer “yes” whenever a customer would ask for a particular product. In fact, he often inferred that we carried it in stock at our warehouse. If we actually stocked all the things this guy suggested, we would have needed an airplane hanger to house everything. Whether we had it in stock or not was really not relevant; the customer just wanted it on his site in short order. The key to maintaining this level of customer service was the ability to use local wholesalers to fulfill the requests.

Although our sales people often try to bend the rule, we can’t be all things to all people. We can’t stock every brand of product or category our customers could possibly want. We have chosen to align ourselves with the product that best fits our marketplace and gives us the most opportunities to fulfill customer requests. When customer service problems arise, how do we meet the challenge without being fiscally irresponsible?

Master distributors, commonly called wholesalers, give us the opportunity to provide superior customer service without putting a strain on our existing inventory investment. In fact, the use of wholesalers may help us out of certain purchasing situations that force us to buy more product than we really need. First of all, we need to dispel the myth that wholesalers are competitors. True wholesalers do not sell product to the end user. They work on a strictly business-to-business model. In this article, I will point out several areas where sourcing through master distributors makes good inventory management sense.

Sourcing Non-Stock Product Outside Existing Lines

Many of us have the ability to create direct relationships with the manufacturers in our market space. The question is: do we always need to buy direct? In many cases, especially if we are taking care of a brand preference for a customer, we do not need to establish a direct relationship with a supplier.

When you create a direct relationship with a supplier, you are often required to make a large opening order. You are asked to carry a breadth of product and forced to commit to an initial financial investment. If this relationship is in direct competition with one of your existing product lines, you will now have the challenge of spreading dollars over multiple suppliers. Your customer service people will be confused and inventory turns in both lines will be reduced.

In order to eliminate this conflict, distributors should look at using wholesalers to fulfill non-stock customer service requests. You may pay a slight premium over the direct relationship price, but you will not be forced into the carrying costs associated with stocking duplicate lines.

Sourcing Non-Stock Product Inside Existing Lines

In most cases, you would typically add a non-stock item to the normal replenishment order coming in from the supplier. Unfortunately, you may be caught in between normal orders. When you pull up the requirements, you may be several days away from accumulating a freight prepaid order. Is it always best to source from your normal supplier?

As an investor of company funds, you have several options here. You can bump up the requirements on everything in the line to make freight. Of course, you will screw up the replenishment cycle on the next order. You can simply bite the bullet and pay the freight from the factory. You may have to contend with a minimum package quantity and wind up with extra non-stock inventory in your warehouse.

As an alternative, you may take a look at the cost of sourcing through a wholesaler. Many of these suppliers have lower minimums and can be located closer than your existing factory relationships. The reduction in freight and lack of non-stock inventory may offset any additional premium price charged by the wholesaler.

Cherry Picking a Line

There are often products that we want to maintain in stock to meet our customer service needs. The products complement our current offering without duplicating existing lines. If we were to establish a direct relationship with the factory, we may be forced to carry products that detract from our current sales direction. In addition, we probably do not have the volume in these items to source them economically.

By working with a wholesaler, we can source only those products that make sense in our current sales direction. There is a common perception that we will be paying a premium for these products. Because of the volume that these master distributors buy in, they can often provide comparable pricing to a vendor direct relationship. This is especially true when we are reluctant to carry the entire breadth of a line.

Sourcing at the End of a Season

Buying seasonal products is a challenge for any purchasing agent. Only the very experienced will avoid getting caught short at the end of a season. A less experienced buyer will often make purchases late into a season and wind up with product on the shelf in the off season. This is a where the wholesaler can get us out of a bind.

This next statement will probably make your sales people cringe. It is better to run out of product before the end of the season than to have a mountain of product on the shelf in the off season. The carrying cost will eat you alive. From a guy who carried a truckload of concrete blankets through the whole summer, this should be avoided whenever possible.

At the end of the season, resist the temptation to make another factory buy. Let your inventory bleed down and look to tap local sources. Your best bet may be to check with a master

distributor. I can guarantee that a slight decrease in gross margin is far less than the carrying cost associated with shelving a truckload of concrete blankets for 6 months.

Consolidation of Vendors

If you are anything like me, you know what it's like to have the 31 flavors of safety glasses. I am slightly exaggerating, but I bet that in the past we have definitely carried at least 5 distinct brands. That was 3 or 4 too many in my opinion. I was spreading my buying power over 5 different suppliers and trying to keep up with their shipping requirements. Needless to say, we were overstocked in this category.

When we look over the entire list of suppliers we do business with, I would guess that 15-20% of them are duplicate lines. Think about the costs associated with generating those separate purchase orders and payables. Wouldn't it make sense to consolidate all of those low volume suppliers with one master distributor?

I challenge you to revisit these smaller volume factory relationships. Are the products available from a wholesaler? Can this consolidation earn you higher discounts with the wholesaler? Can you replenish more quickly by consolidating your volume with a distributor?

Testing a Line

As mentioned above, it can be very expensive to establish a factory direct relationship with a line of products. As an alternative, you can put your toe in the water with a master distributor. They will give you access to the product without requiring large commitments. You can see how well the products compliment your sales direction. If it appears to be a fit, you can always seek to establish a direct relationship with the manufacturer. Since most new additions to our product offering turn out to be dogs, this is a great way to minimize your exposure.

A good friend once told me that purchasing is a thousand little decisions done right every day. As investors in inventory, we need many different avenues at our disposal. I would encourage you to take a look at incorporating wholesalers into your bag of tricks. You never know when that relationship will help bail you out of a challenging situation. 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.

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