2014

White Paper on Distributor Inventory

Why distributors have too much Inventory

Since 2007 the United States has been
In and working its way out of a recession
In 2013-14 Wholesalers are finding that
"THINGS" are different in the Distribution Industry.

- **Customers will leave a 20 year relationship for 5%.**
- **Customers who wholesalers say "Cannot nor Ever Would use the WEB to buy their products" purchased over $300 million dollars in Internet sales in 2013**
- **With new customers at a premium, wholesalers had to depend on current customers for their margins and suddenly needed to know:**
  - **What are they buying**
  - **What have they quit buying from us**
  - **What are like customers buying**
  - **Are we making a profit from their sales?**
- **Wholesalers have to know more about their inventory than at any time in the past 40 years.**

Use this White Paper to put a **Magnifying Glass** on your:
Buy, Store, Sell, Pick, Invoice, and Re-order cycle

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Why Distributors Have Too Much Inventory

Distributors that stay on top of their inventory, have a competitive advantage. They have more cash available to support sales, marketing, and other programs that will build the business for the future.

Here are some of reasons why distributors have too much inventory:

Padded lead times:

Purchasing people who do not trust their computer's replenishment logic, will add a SAFETY FACTOR to their lead time.

- Eliminating the "pad" is to challenge people to provide realistic lead time estimates.
- If a customer wants to do business with you, they will find a way to work around your **ineffective replenishment system.**
  - When a customer identifies that you cannot keep stock on your shelves because of an antiquated replenishment system, IF THEY WANT TO CONTINUE DOING BUSINESS WITH YOU, they will find a way around your ineffective replenishment process.
  - They will tell your sales person that they have a big job coming up and they are going to need a lot of the A 100's and whatever other items they want you to have on hand. **Customers Over commit on future plans and under commit with Purchase Orders.**
  - The sales people, because the system does not give them any information either, brow beats purchasing to buy this product.
- Purchasing finally agrees with the sales person and increases their normal **10 % over buy to 20%** and your **inventory builds.**

***This puts a burden on the distributor that is difficult to overcome*.**

- Is the quantity forecasted correct or has it been padded by your own sales department?
- Are your buyers adding 2 weeks to lead time to make sure that they do not run out of product?
- It is time to ask what causes your purchasing people to buy more products.

Explore new ways to look at your vendors and at your sales and purchasing policies.

- Ask your principle suppliers how you can work together with them to reduce lead times?
- When possible you need to **"Use Technology"** to deliver your PO's to your vendor. This reduces the cost for both you and your vendor. EDI (Electronic Data Interface/Interchange) reduces the cost of PO processing

Each manual Purchase Order costs you and your vendor $50.00 to process. If you are not using electronic price updating then PO's are being sent with the wrong pricing. This increases the cost of your purchase order. **Each time you and your vendor have to communicate one on one because of wrong pricing - you add another $50 dollars to the cost of a purchase order.**

CUSTOMERS BUYING NON-STOCK PRODUCTS

- If a customer orders a product that is a slow or a no seller, **they should have to buy the whole case.** If they do not and you have to sit on the inventory, you need to know that INVENTORY SETTING - **COSTS YOU 20% PLUS PRIME, PER ANUM.**
- Each time a PO goes out that is below the vendor's minimum dollar or weight – the cost of inventory poker goes up. A modern system maintains the weight and dollar levels and gives a warning to purchasing that this PO does not meet minimum.

Reviewing these issues with your sales and purchasing staff on a regular basis will lead to a reduction in inventory without impacting your fill rates.

Ignoring slow moving, excess, or obsolete inventory

- When we first started to work with one of our clients they told us, **"We do not have much obsolete inventory."** Within 3 months of the initial installation it was determined that 22% of the inventory was not moving or was moving extremely slow.
- We have a report that captures obsolete and/or slow moving inventory.

When we install a new customer who is working with a mostly manual replenishment system or **has to manually adjust their Min and Max field** we find that they will have between **15 and 20% obsolete and slow moving (or not moving) inventory.**

- **There are two recommendations to help this situation.**
  - Use technology to be your eyes on every piece of inventory, large or small
  - Put someone in charge of excess or slow moving inventory. Without an "owner" it is too easy for everyone, management included, to avoid the issue.

Revisit your Inventory Management process on a regular basis.

- Someone in your company is making decisions daily, on how much product to order from suppliers who may be half a world away.
- When was the last time that you sat down with purchasing to find out what they use to make a buying decision?
- If they are still using the logic that they used in 2006, you have a bigger inventory problem than you know.
- On a regular basis, decisions are made on what was ordered last time, trying to make vendor minimums, trying to make dollar minimums.
  - If your sales reps and purchasing reps are buying products based on requirements (***that did not come from your replenishment system) you need to consider how much your setting inventory is going to grow***.
  - **Take 25% of your inventory __________X's 29% =___________ (20% plus prime) that is the per anum cost of inventory that is not moving**. If you buy a product for a dollar and it sets for a year, the cost of that item is now **$1.29**. Of course you cannot use that figure to calculate your cost. You have to eat the additional .29 cents.

- In today's economy what you do not know about inventory can hurt you and your company.
  - If you have too much cash committed to inventory that is not carrying its weight in inventory turns - it is time to rethink your process.
  - We recommend that you establish a monthly **Sales and Operations Process including a management review** to look at current and projected inventory levels.

It's a lot easier to not purchase inventory
Than it is to work it off - after the fact

Antiquated VS Modern Purchasing Processes

- If you or purchasing people are walking the stacks to write down what inventory to buy, then 25% in slow or not moving inventory is too low a figure to use.

When you walk the stacks to create a purchase order: All that is being done is that you are **simply replacing what has been sold. Without a good replenishment system, it is impossible to know if an item is** at the beginning of it **BELL CURVE** and starting to sell, has flatten out, or it is at the end of its **BELL CURVE** and has stopped selling.

- **WHAT IS A BELL CURVE?** The graphic explains a Bell Curve.

Sales of an Item are:

- Going up and the Bell Curve is moving up the left side of the bell
- Going flat, which means that the sales of this item have reached the top of the bell curve and the next move for this item is that it will be going into sales slide that may be gradual or precipitous. This depends on seasonality of an item.
- If sales are in decline the curve is going down the right side of the Bell Curve- When a product is in decline, ProTrac will recommend that you reduce buying this item. The Bell Curve Cycle shows no or few sales of an item. If you continue to buy at the old rate you will increase your **SETTING INVENTORY** totals.

At the top of the Bell Curve -Sales are flat and inventory purchases will need to be reduced- the curve is about to start dropping

Inventory SALES Bell Curve

- When customers start to buy this item again, the Bell Sales Curve will tell ProTrac that it needs to increase the amount that is being purchased because there are working orders for the item.
- ProTrac watches the Bell Curve for every item in your inventory and makes recommendations to Purchasing on optimal buying of an item.

Without a good computer based replenishment system

- You will buy on how well the product **used to sell (six months ago)**
- If you walk up to a shelf and see that you have 10 items of this one product, without a solid replenishment system, you have no way to know if 10 items is **good or bad.**
- Is the product on the front or back side of the **Inventory Bell Curve**?
- What is the **demand** for this product?
- What is the **lead time** for this product?
- How much safety stock do we really need on the shelf?
- How many are working, on a sales order but not yet picked?
- How many are on an incoming purchase order?
  - **ProTrac knows all of these details about every product small or large that is setting on your shelves today**!

Inventory usage is never Static

At any point in time, a product is either moving up or down the **Sales - Bell Curve**. ProTrac watches each product's Bell Curve and it will make a recommendation that you let the software reset **Min, Max, and Order Guide** to reflect the current sales position of every product in your inventory.

New products are so exciting, until they become dust covered.

There needs to be a plan to visit new products and to work off the inventory that the new product was supposed to replace.

- **This goes back to the idea of a monthly inventory management meeting to discuss inventory levels and to take an honest look at new product sales.**
- **Are you really sure that the new color, size, feature, or package will increase sales**?
- **What has the track record been on previous product changes that were supposed to increase customer demand?**

  Everyone wants to respond to a new customer or a request from an existing account, and they should. Your company needs a process to review the decision on how much of the new item to stock.
- There should be follow up to see if the original forecast has been achieved

Here's a radical idea: Challenge your sales and marketing people

Eliminate two "old dogs" from the product line for each new one that they add.

Dealing with your inventory

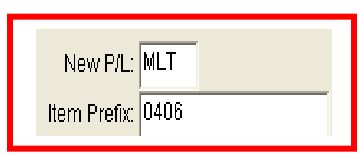
IN your inventory review you need to establish a measurement of your inventory.

- Note: **Errors in an inventory record always result in too much of the wrong item and a shortage of the right one**
- **We recommend that all new items be entered into the system by one person**.
- **We also recommend that** you use the **vendor's item number** so the process of updating pricing can be automated.

  Many Legacy systems have to put the vendor's Category or ID with a "-"before the item number. This added character in a model number field, eliminates a systems ability to use electronic price updates, because the item number does not look like the vendor's own number.

Modern Software maintains the vendor ID or Product Line outside of the item number and that keeps that number pure and easily updated when a new price is released.

EXAMPLE: ProTrac has a separate field to identify a Vendor and an item. While the two are related they are kept separately by our inventory system. The graphic shows that the Product Line (Vendor) and the Item number are in two separate fields.



When your inventory item file is clean then it is easy to identify an error.

When there are a lot of errors then your staff gives up on the task.

Use technology to be your eyes on your inventory. Computer software does not have favorite products or vendor reps. **ProTrac will only recommend the products that are selling.**

- **If you do not take a physical inventory or only take a physical inventory on a yearly basis we would expect your inventory to have more problems.**
- **We recommend that you consider using a Cycle Count and work your way through all of the inventory – You might consider Cycle Counting your fast moving products on a more regular basis.**
- **You might consider assigning Inventory Bins.**
  - **Bins will make a marked difference in your warehouse operation. It is easier to take a cycle count with bins and it is easier to train new warehouse employees.**
- **Do not Dismiss Bar Coding from your consideration**

When was the last time that you de-expedited a product?

Expediting is the business function of trying to improve a promised delivery date from a supplier. De-expediting is equally important. A Customer order changes, especially in the case of special or custom orders. Those changes need to be communicated immediately.

Inventory performance is measured at a "macro" level only:

Most distributors know the turnover rate for their business in total.
However, inventory decisions should be made at the **item or product line level of detail**.
Measuring turns by category or for your "A B C D" items can give you great insight into where the investment in inventory is not paying dividends.

Inventory control impacts every facet of your distributorship. If you are working around your system to do your normal day to day processes then you need to evaluate Our ProTrac Software. **Mel Carney**

The more time management spends on

Inventory - the more money you will make

INVENTORY IS THE ONLY ASSET THAT GENERATES A PROFIT

Handle it with care!!