Visions Tip: Inventory Control

Meet Your Customer Expectations While Maximizing Your Company Net Profitability.

Since 1985, we have worked with many, many distributors, selling many different type of products. Even though their locations and industries are different, we have found the solutions to their problems to be very similar. The internet, tough economy, lower margins and tough competition are making it difficult to stay in business and is forcing owners to change their thinking on how to best run their operation.

Following are 8 tips on the first steps to strategically control your inventory.

1 **Understanding the problem:** Understanding the problem: Stockouts and lost sales decrease customer service. Too much stock creates decreased turnover and smaller profitability. Many know the material is somewhere, but where. The on-hand computer quantity does not match what is actually in the warehouse. It is surprising how many distributors do not have control of their inventory. But don't give up, you just need a plan.

2 **Decide to control your inventory:** Unless you know where your stock is located, if it is in a sellable condition and how much you have, you cannot know how much to order to replenish your stock. If your computer system is showing more stock than you actually have, you will order sooner than necessary, have more stock than necessary and decrease your turns and profitablilty. If your computer system shows less stock than you actually have,you will experience stockouts and decreased customer satisfaction.

Change is difficult and often meets strong resistance. To control your inventory and make changes requires that a decision needs to be made from the executive managment level.

3 **Know your Carrying Cost:** The Carrying Cost is the cost to carry inventory measures the overhead that a company carries to support its inventory. In addition to the money originally spent to purchase it, more money will be spent on upkeep while inventory sits in your possession.

The longer the inventory is there, the more it will cost in upkeep. Carrying cost is usually expressed as a percentage that represents the cents per dollar that will be spent on inventory overhead per year.

The industry average is 20 percent plus the current prime interest rate but you need to know your cost. Click to download our free Carrying Cost Calculator today. You should calculate your carrying cost at the end of every year with your tax forms.

4 **Determine the items to stock:** Next, you need to print a "Hit Report" of your entire inventory by showing the numbers of 'hits' an item is touched in a year's time. Consider item #1 that was ordered twice during the year versus item #2 that is ordered 250 times (almost 3 times a week).

Does it make sense to place a special order of item #1 twice a year and stock #2? Other things must first be considered before discontinuing a stocking item:

Is this a repair part? You may need to carry spare parts to support the sale of highly profitable items.

Is this a product you need to stock to service a highly profitable customer?

Do you need to carry this item to demonstrate that you are a full-line distributor?

What is my Carrying Cost for this item? (Carrying Cost percent x Item Cost)

Each item must bring profit to the company. If there is not a valid reason to carry an item in stock, identify it as dead stock. In other words, plan to discontinue the item and do not purchase again to restock.

5 Identify dead stock: From your Hit Report, concentrate on the items with the lowest 1% of hits and of course, those items with no hits. Ask your sales people why each one of these items needs to be stocked:

Is it a repair part, necessary to support the sale of a profitable item?

Do you need this item on hand in case a profitable customer needs it in a hurry?

Is this item necessary to demonstrate to customers that you are a full-line distributor?

6 Liquidate your dead stock: Create a plan for eliminating dead stock. Remember that your stock is worth what a customer is willing to pay, not what you paid. Ideas can include:

Advertise a "monthly special" on your website.

Send an email campaign to your customers and prospects with your "specials".

Donate to a non-profit organization. This can be very beneficial for certain type of corporations. Check out www.NAEIR.org for the National Association for the Exchange of Industrial Resources.

Search the internet for "surplus inventory" plus the product line you need to liquidate. There are many potential customers on-line. Offer monetary rewards or other incentives to sell your dead stock.

Return the material to the Vendor.

Transfer the dead stock to another branch location where it has a better opportunity of selling.

Pretend that you are a retail store and drop the price to move the stock.

If you are short on space, you can just throw it out. It may be worthwhile to gain the extra space.

7 Organize your warehouse: Do your customers fill their own order? If they do, then you probably already have your warehouse organized like a grocery store, where items are grouped by categories, with all the different brands in one location.

If they do not fill their own orders, then organize the items with your highest number of hits, closest to the receiving, shipping and staging area. A computer terminal with a printer should be located at the docking area making it easy to print invoice packing slips and purchase order receiving copies. This way, the items that are touched the most will incur the lowest cost of filling and stocking orders.

8 Size your stocking locations: Your computer system probably has a minimum and maximum days supply setting in the category code (group of items) . Your quantities will vary from branch to branch but your days supply is constant for each item category. The days supply (quantity) is calculated by taking the last month's sales plus this month to date sales and dividing by the total number of available sale days. This will give you an average sale per day. The average sale per day needs to be re-calculated nightly so your stocking levels fulxuate real-time with your sales.

Now that we have our minimum and maximum quantities, size each stocking locations on Days Supply in the primary location. We recommend to size your stocking locations by days supply with 7-14 days supply closest to the staging and docking area, followed by 14-30 days supply further out, followed by 30-60 days supply further out, etc.

Real estate prices vary with location with the most expensive being where everyone gathers at the center of the city. Your warehouse is no different. Based on your Hit Report, we know what items are being handled the most and then size each item in each branch to their Days Supply.

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