

# LIVENING UP YOUR APPROACH TO DEALING WITH DEAD INVENTORY

*Can Inventory Sharing and Leaner Models Help You Better Service Your Customers?*

Dealing with slow moving products is a top issue with any electrical distributor concerned about profitability, regardless of the economic climate.

According to a December 2009 report from the U.S. Commerce Department, sales at the wholesale level unexpectedly rose 1.2 percent in October—stronger than the 0.7 percent rise economists originally expected. It followed a 1.3 percent increase in September and was the seventh consecutive month that sales at the wholesale level rose.

This news is not without its drawbacks—the inventory-to-sales ratio slipped to 1.16, meaning it would take 1.16 months to deplete existing inventories at the October sales pace.

These numbers indicate that as the tides of the recession turn, electrical distributors must be ready to adapt to the changing needs of customers and incorporate new best practices for managing the products on their shelves.

“In the past 10 years, electrical distributors have shifted to more of a focus on stocking what customers expect them to have in inventory and available for immediate delivery,” said Jon Schreiberfeder, president of Effective Inventory Management, based in Coppell, Texas. Schreiberfeder’s firm

is dedicated to helping distributors and manufacturers get the most out of their investment in stock inventory and with over 28 years of experience in inventory management, Schreiberfeder has helped over 2,000 firms improve their productivity and profitability.

“Most distributors are trying to eliminate dead stock and excess quantities of products that do sell. In addition, many distributors are providing more value-added services that allow their customers to concentrate on their core competencies,” said Schreiberfeder.

Schreiberfeder and other experts in the field of inventory management consulting have devoted a significant amount of time to exploring the different methods of pricing analytics, often based on invoice data and customer rankings (see “Pricing Strategies in the Post-Recession Economy” on page 38 for more on this topic).

Perhaps one of the most intriguing strategies to moving dead inventory in the last 10 years has been the concept of inventory sharing. Much like the way retail chain superstores such as Best Buy or Walmart have operated for years, the basic concept lies within connectivity between distributors. Simply put, if one store does not have the product the customer seeks, they can order it and have it shipped from another affiliate in

a non-competing territory who possesses the product they desire.

According to Mike Wentz, national sales manager for IDEA and former director of business development for Activant’s Wholesale Distribution Group, the concept of inventory sharing would allow distributors to better promote their own strengths.

“Dead inventory is a problem certainly magnified by the recession, as distributors are more likely to take on an extraordinary request because they don’t want to decline the sale,” said Wentz. “But the concept of inventory sharing has long-term profitability, too.”

Activant has developed inventory sharing software that has the ability to help distributors play up their strengths and hone in on their specialties.

“When synced with IDEA’s data synchronization platform, Industry Data Warehouse (IDW), distributors can not only see what they have, but also they can see what others have. It would increase the benefit of being a part of a group like IMARK, since they can reach out to a member who doesn’t compete with them to fulfill the order,” said Wentz.

Currently, distributors are more likely to make a special order from the manufacturer than network with other distributors, according to Wentz. “Then the box of the

oddball item sits on the shelf. It's a growing concern because regardless of where the product comes from, no one is likely to turn down the order, especially in this economy," he continued.

Schreibfeder also noted that inventory sharing carries many benefits for distributors. "Customers are interested in getting what they want when they want it," he said. "Most really don't care how the distributor obtains the product. Inventory sharing allows distributors to provide items with sporadic sales when needed by a customer at a very low cost. This allows the distributor to best utilize his/her resources. They can apply their important assets (people, money, etc.) on their core competencies."

The concept of inventory sharing also suits the electrical distributor quite well, said Schreibfeder, because of the way sales are structured. "Typically, the 80-20 rule (80 percent of sales being generated by 20 percent of products) does not apply for most distributors. It is common for 80 percent of sales to be generated by 10 percent to 13 percent of inventory items, and for 95 percent of sales to be generated by just 50 percent of items," he explained.

What can keep a distributor from successfully competing is that they must be able to provide the slow moving items that represent a small percentage of their sales. "This usually includes selling small quantities of a large number of products," said Schreibfeder. "Inventory sharing allows a distributor access to a wide variety of products that might not have significant sales, but are important for providing good customer service. In these programs, distributors can access this stock without having to worry about buying case quantities or meeting vendor minimums."

For years, experts have stated that one of the best ways for companies to minimize the amount of what they're carrying is to transition to a "just in time" business or "made to order" model. In this model, slow inventory items are assessed to see if they might be needed in an emergency or truly differentiate the distributor's service from his or her competitors. Slower moving products that do not meet either criteria are no longer kept in stock, but are provided to customers who are willing to accept a lead time.

According to Schreibfeder, going "leaner" in general is a long term inventory management strategy distributors should strongly consider.

"Distributors are striving for more accurate forecasts and lead times from vendors to ensure that all material movement is properly recorded. That way, on-hand quantities are accurate, and they can reorganize warehouses to minimize the cost of filling orders," noted Schreibfeder.

There are tools that can help. The core methodology of products such as Activant's popular software, Eclipse and Prophet 21, helps a company analyze the balance of the cost of acquiring products versus the cost of possession and transition to a leaner model. "The formulas of Eclipse and Prophet 21 are developed by the industry's best experts. They help companies minimize the amount of what they're carrying to transition to a 'just in time' basis to fulfill the needs of customers. Furthermore, by utilizing the efficiencies of Industry Data Exchange (IDX), electrical distributors can lower their transaction costs," said Wentz.

As the old adage goes, "Necessity is the mother of invention." Electrical distribution businesses looking to gain market share during this persistent recession and beyond need to keep their eyes open for new best practices to increase the chances of long term survival.

