

It's Not Just Stuff Back There
By
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In the today's highly competitive market, how we handle and manage our assets directly impacts our ability to compete and hopefully win with our customers. With inventory comprising our largest asset base, we need to maintain a higher level of focus on managing it in every location. Too often we hear distributors talk about the lack of focus their warehouse (vault) personnel place on properly managing and handling the inventory. While many vault personnel have a great deal of pride in their work and work space, many do not go through their daily activities with the same sense of pride. They see your inventory assets in the vault as just a bunch of stuff that creates hassle after hassle.

Everyone in the organization has some impact on the successful use of this asset. Don't kid yourself, when we say everyone, we mean everyone. All the way from the person handling the incoming phone calls to the pickers, packers and shippers. We all know that sales personnel have a large impact on our return on the inventory asset investment. It seems like sales dominates many of the conversations with regards to inventory because they are the ones screaming about it most often. But how about the inside sales people, the counter sales people, the accounts receivable people, the purchasing people and the vault personnel? What they do has a huge impact on the effectiveness of the inventory asset. But often they all fall into the mode of seeing all that cash invested as just stuff.

Getting and keeping everyone's attention on managing, turning, handling and re-investing in your largest asset is a challenge. You have to work on establishing both short term and long term focus and goals. The length of the goal and corresponding rewards should have both short and long term options depending on the group of personnel you are addressing. If everyone in the organization stays focused on your inventory and manages it with a greater degree of caution you win big in both the short and long term. Isn't that the goal anyway?

Let's take a look at a couple of groups who might benefit from some simple changes in their motivation, rewards and performance levels. Purchasing personnel clearly spend more money in the organization than any other group. People think that sales personnel are big cash spenders, and to some degree they are. However, on a recurring basis, the purchasing personnel write thousands of purchase orders a year totaling hundreds of thousands of dollars. Keeping them on task sure seems like a good idea. When they make a mistake on the purchase or buy side the impact on your potential return on investment is substantially reduced. When they are looking at their respective product lines to purchase, you want their motivation to be maximization of net profit. Purchasing is often considered a fairly mundane job. There is a myriad of data that needs to be reviewed and analyzed before making the next purchase. The operational software you use hopefully will provide a historical view of the ins and outs of every product by day, week, month, quarter and year. This is critical information for purchasing. What has

happened with each and every product within defined time periods is a guide for predicting future usage. Not using this data correctly can cause mistakes in future buying. Purchasing personnel therefore need to have the ability to earn a little more money or be rewarded or recognized for maximizing the dollars invested on both a short term and long term basis.

If purchasing personnel are compensated via a salary plus a potential profit sharing bonus at year end, their focus on making good buys in mid-July is not as sharp as it is at year end. They also know that in addition to the weekly or bi-monthly paycheck they are getting, the bonus is coming soon (or at least they hope it is). Their attention has changed from just doing their job, to doing their job with the potential bonus in the offing. How about looking at this group and seeing if we can create numerous rewards for performance throughout the year? How about giving them an annual purchasing budget that is broken down to quarters and months? How about looking at the effectiveness of their in-season versus out of season inventory levels for seasonal products? How about looking at their ability to negotiate dating, terms, returns and discounts? How about getting their input on why the inventory levels and purchasing dollars spent vary from the established budget? How about looking at their effectiveness at reducing the number and level of C and D items you have in stock? How about looking at your dead stock and measuring how purchasing is either adding to or reducing the level every month? In essence, we need to give them plenty of opportunities to help us maximize our return on the dollars they are investing. We might think that they do this all the time just because it is part of their job. I would like to think that is the case as well, but in reality I don't think it is. We have such a broad breathe of products and product lines they need to review, the ability to do all the other things above often just won't get done.

Part of the challenge we have in maintaining focus for the purchasing personnel is that we have grown our product offerings exponentially but have not grown our purchasing department in a corresponding manner. We seem to be asking them to review more and more products and lines in the same time frame they did when we carried fewer products. Their ability and time to do the needed analysis just doesn't exist. However, the tasks they are forgoing are very important. We even assume they are still doing all the analysis even though we have heaped a bunch more products on top of them to review. Step back and take a look at how we can re-adjust their daily, weekly and monthly tasks. Look at what we can implement in their daily, weekly and monthly buying cycles and tasks that we can measure and thus recognize and reward. Can we find a way to recognize their additional maximization of our gross margin? If you do this, it will help them to maintain the focus on cash spent, cash invested and return on investment. After all, this is what we need this group to do more than anyone. We need them to focus on cash, not just stuff.

In addition to purchasing, the vault personnel are very intimate with your stuff. They take it from the receiving dock to the shelf, pick it pack and ship it. They touch it more than anyone. Getting them to focus on the fact that damaging, losing or mishandling this stuff is the same thing as tearing up hundreds of dollar bills. If you went back and physically stood in front of these people and tore up hundreds of dollar bills, they would

look at you like your were crazy. After a few hundred, they would accost you and force you to stop. They would make statements about your sanity. But the point you are making is that if they mishandle the product once it arrives, it is no different than if they were tearing up hundreds of dollar bills. Distribution is tough enough already, the last thing we need is our own people damaging our precious asset. So we should attempt to keep them focused on managing our assets on a daily basis. Maybe adding in some simple focus points and corresponding incentives would help everyone to handle this asset more effectively. Do you think there are a couple focus points and possible additional incentives you can provide for the vault personnel?

Working in the vault can be the most challenging of all the jobs in distribution. The number of items they receive, track with a high degree of accuracy and handle with caution is often unbearable. Then there is the task of managing all the locations and corresponding labels. In receiving, you have the added pressure of getting right the first time, or else you will generate 10 additional errors in the organization. So what can we do with this group to make sure they handle your stuff better?

Consider the personnel we are talking about here. Many of them are hourly employees with relatively short timeframes of focus. They look at the future as the work week they are in. They see Monday as a new starting point and Friday as an ending point. Often their enthusiasm changes by day, often getting higher as the end of the week approaches. But between Monday morning and Friday afternoon, are there tasks we need them to consistently perform? Well we would like them to keep the place neat and clean. We would like them to receive and put away items with 100% accuracy. We would like them to pick orders with the same degree of accuracy. We would like them to pack the orders such that products are not damaged in shipping. We would like them to cycle count to improve our inventory accuracy. We would like them to process a large number of orders in a condensed period of time. We would like them to take great pride in dealing with our stuff (cash). So in addition to a paycheck, we should consider a series of additional rewards and recognitions. Remember, if they are more successful in managing your inventory, you win big. Maybe you come up with some cash and non-cash rewards programs that are possible to achieve every week. Maybe you look at cycle counting accuracy goals for the day, week or month and recognize their achievements when they hit our goals. Maybe we look at the number of returns due to broken or damaged goods. Maybe we look at the number of orders processed over and above the norm. Maybe we look at the receiving accuracy for the week.

All personnel in management struggle with cash flow, asset management, cost management and inventory. In today's world, we need everyone to help us achieve these goals. We need them to maintain a consistent focus on the end result, which is an increase in net profit. We need them to treat our stuff just like it was hard cold cash. Above all, create multiple and frequent re-focus points for all your people to keep their attention on return on investment. Giving some additional rewards and recognition will help all your personnel treating your stuff more life it was their stuff. And in the end, it all becomes good stuff!

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