

Snow Blowers in the Spring? Managing the Seasonality of Inventory

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Every distributor deals with seasonality of products. Some industries are more hard hit than others. Coming from a construction supply background, seasonal products were some of the most difficult to manage. They may have only represented 20% of the entire product offering; but they seemed to provide 80% of the headaches during the annual inventory count. How many of us have experienced the sheer joy of carrying 400 concrete blankets through a summer season? Not much margin left in those bad boys by October. Water coolers and jobsite heaters are a couple more groups that seem to give us fits in the contractor supply markets. Now, I don't want to belittle the importance of these products. We are in the business of meeting the needs of our customers. I only want to suggest that we must learn how to manage these products effectively.

Identify Seasonal Items

The above examples were easy targets. I am certain that you could sit down with your organization and come up with a hundred other products that fluctuate by the seasonal changes. An important distinction is that seasonal products don't necessarily have to do with weather changes. What about hunting season? Don't some of us carry products that may cater to the leisure time activities of our customer base? For those of us that cater to a more retail cliental, the holiday season is a large consideration for inventory planning and management. Beyond the obvious, I would be inclined to believe that there are several hundred items lurking in your inventory that could be considered seasonal. If we don't identify them as such, and manage them accordingly, we run the risk of being unable to fulfill customer demand at the beginning of the season; and even worse, we will wind up sitting on a tremendous surplus at the end of the season.

In order to identify these hidden products, we need to run them through a seasonal item filter. A filter is nothing more than a rule, or set of rules, designed to identify a product. If over 80% of your sales volume on a particular product occurs in any six month period, that item is probably seasonal. Notice that I did not say *consecutive six month period*. There are some items that have a split season. One that comes to mind would be rain gear. Rain gear generally sells in the Spring and Fall; but not during the Summer or Winter. So go ahead and apply the rule to your inventory and search for those seasonal products. Who would have thought that epoxy anchors could be seasonal?

Know the Season

Once you have run your products through the filter and developed your list of targets, spend some time understanding when the season begins and when it ends. This is a critical step in meeting the needs of your customers. Remember, as distributors we are in the business of maximizing our service level, while minimizing the inventory we carry. It is important to know when the season starts so that we can have enough inventory to

meet the needs of our customers. Unfortunately, the real mystery seems to occur when it is time to shut off the faucet at the end of the season. This is why we tend to wind up with surplus at the end of the season. Most of us have come up with our own SWAG (Scientific Wild Ass Guessing) when it comes to turning off the faucet. I worked with a distributor in Denver who had a simple rule, “Stop buying cold weather products on January 1”. He had been working in that market for 20 years, and it seemed to work for him. A more accurate way to understand the season is to study the results of your filter.

Forecasting Usage for a Seasonal Item

On a non-seasonal item, we use a rolling six month average to predict usage. We take the last six months of usage, add them up and divide by six to predict how many units the customers will buy in the seventh month. This doesn't work so well for seasonal products. Let's go back to the water cooler example. If we know that the season begins in May, how accurately will we be able to predict the future usage if we rely on the last 6 months? We wouldn't catch up to the demand until we were half way through the season and we wouldn't wind down our purchases until we were three months out of season.

For seasonal items, we need to look at the future six months from the previous year. This is referred to as a future rolling average. In order to predict usage for May, we need to review May through October, take an average, and apply the number to our May prediction. Our June predicted usage would be an average of June through November. This would work great if our businesses were consistent from year to year; but they are not. They grow and decline. This is why we need to add one more factor to our calculation. We need to hit our predicted usage with a growth percentage or a decline percentage. If our overall business is up 10% over last year, increase your prediction by 10%. Conversely, if your business is down by 10%, reduce your prediction by 10%. You are well on your way to managing those seasonal items.

It's OK to Run Out

I am sure that I have peaked the attention of every sales person reading this article. I would venture to say that a lynch mob is forming as I speak. Running out of product is totally against the nature of a sales dominated organization. Let me assure you, it is far worse to end the season with a mountain of surplus inventory. We need to remember that the number one reason that wholesale distributors go out of business is not due to a lack of sales. The number one reason that distributors fail is by carrying too much inventory.

Running out of a seasonal item near the end of the season isn't the end of the world. Just go buy some from your competitor at a premium. Take a little hit on the gross margin side. The effect on your net profit will be far less significant than the carrying cost hit you will take by holding onto those products until next season.



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