

# The Distribution Team

Thank you for your interest in the attached articles. They are intended to guide you through various aspects of managing your operations. I hope you find the advice useful in Hunting Cash Inside Your Business. Please feel free to call me directly at 719-597-5978 if you would like additional information regarding any of the ideas presented. I hope you will also visit us at [www.thedistributionteam.com](http://www.thedistributionteam.com).

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Sincerely,

**Scott F. Stratman, President**

**The Distribution Team, Inc.**

## **CYCLE COUNTING: PENICILLIN FOR DISTRIBUTORS**

**By Scott Stratman**

For many distributors, controlling errors is a never-ending problem. Errors cost distributors nightmares in terms of poor customer service, unpaid receivables, lack of trust in the computer system data and, most of all, hard cash. I encourage all distributors to calculate the cost of an order (when processed correctly) the first time it comes through their operation. In most cases, that cost runs between \$35 and \$45 per order. That includes taking the order, picking, packing, shipping, billing and getting paid. Some distributors' costs run higher and some lower; but over the years, I have found this range to be fairly practical. That is, if we did it right the first time. When we do the same order again, due to error, another \$40 is spent to get it right, eating into any potential gross margin anticipated in taking the order the first time.

Some distributors try to counteract errors by having every order checked before it is shipped out of the warehouse. Some even have it checked twice. One of the most common causes of errors comes in the picking process – it should not be a scavenger hunt for the picker. **Good warehouse layouts – clearly marked aisles, bins, racks and warehouse space – can help immensely.** Beyond that, trusting the data in the computer system is another major issue that can cause problems. This costs time and money, and error rates seldom decline as rapidly as anticipated. Frequently, blame for the error gets bantered around the organization for days, weeks and months before it is resolved. However, in most cases, the error is fixed on the customer side right away -- we issue them a credit and get them the right product.

Year-in, year-out one function that seems to address the most common errors is cycle counting. It is a rather simple process that takes time and dedication by the distributor. Cycle counting simply says that every Monday, Tuesday, Wednesday and Thursday you will count a few products in your warehouse. The goal is to determine what the computer system says you have in stock, actually is in the warehouse. If done right, it can also help you get products into the proper locations on a very regular basis. Think how nice that would be!

Cycle counting is a wonderful way to expose errors in the warehouse before they become errors to your customers. Cycle counting is a wonderful way to consistently inspect your overall warehouse operations. We always hope things are being done correctly back there; but, usually never find out how well they are being done until we do that very painful annual physical inventory. How many times have you pulled your hair out trying to figure how all those things got there, how so many things are missing – or, just what is this stuff anyway? Cycle counting can be done in a variety of ways. It is not something you decide to do haphazardly. Take time to plan for the inception of cycle counting. Use your computer system to help plan and prepare daily count sheets. **If you are not doing cycle counting now, look to your software to determine if you already have some cycle counting functionality.**

The best way, and the most time consuming way to do cycle counting, is to count everything in your warehouse, starting at point A counting to point Z, at least four times a year. What you are doing is counting everything on a quarterly basis. You are also tying your counts to your computer database in such a way that the system data and warehouse quantities are the same. Having this level of data accuracy would be a huge benefit and weapon in addressing error rates. Data accuracy would also prevent personnel from having to go out and look at the inventory on every order, before giving the customer assurance that it is in stock. Just think of the time saved – not to mention the overall gain in efficiency.

Counting everything in the warehouse four times a year might be overkill. How often do you think you should count dead stock? I would argue counting dead stock four times a year is a waste of time, space and cash. Even the “C” items might not need to be counted four times a year. Cycle counting is by far the best method to address data accuracy issues -- the approach can be modified, while still yielding desired results. You know what you have, the shape it is in and the location.

Another method of cycle counting is to count items with the highest dollars invested. For example, if you had diamond-tipped drill bits costing \$300 a piece, make sure records on those items are accurate. There is no magic in determining which items are counted most often; however, looking at inventory records and costs can be your guide. **You should still count everything in your warehouse at least twice a year, giving higher priority to those items with the highest dollar value.**

Another modification to the four times a year count is to count the fastest moving items more often than the slow movers. This again gives you a high degree of accuracy in your computer system, with emphasis on those items you order, receive, put away, pick and ship most often. These are items that often comprise the greater portion of your sales activities. You cannot afford to have an order taker not trusting the system – going back time after time to see if these items are in stock. If you have not done cycle counting before, I suggest taking time to talk to a distributor who has implemented it as part of the daily routine. You will hear a list of positive effects on the overall operation, as well as some of the rules to be followed.

One of the most important rules is getting all the paper flow to stop before counting. The goal is to determine an end-of-day/cutoff time for taking orders filled that day. For example, you might say “end-of-day” is 4 P.M., for all orders to be picked and shipped that day. Orders taken after 4 P.M. should be considered next day’s business and processed first thing in the morning. This gives your personnel at least an hour to get all the orders taken before 4 P.M., picked and shipped before heading home. It also allows all the paper flow associated with the orders to be handled properly and put into the computer system. Once all of the daily paperwork has been handled properly, you can then think about cycle counting. Hopefully, when the paper flow stops, your system/warehouse records should be close in accuracy.

Next, you need to find someone who is reliable to do the counting. Use your most experienced person who possesses a wealth of product knowledge; and, trust this person to do a good job, because he/she will be in the warehouse alone. Your computer system should automatically print out a cycle count sheet daily, based on the methods of cycle counting selected. The counter takes the sheet and counts from shelf to sheet, verifying the quantity printed on the cycle count sheet. Yes, you heard me right! I am giving the counter the number that should be in the warehouse. The reason is simple. Many distributors have a primary, secondary and overflow location for products. When a product comes up for counting, all locations need to be counted. Start first at the primary location, move to the secondary location and then all overflow locations – the goal being to find all the products you are counting. I suggest that at the primary location, place simple labels directing personnel to the secondary location. At the secondary location, put simple labels indicating the overflow location. You get the picture? Remember, you must count it all, no matter where in the warehouse it is physically located.

Many distributors use cycle counting as a method of restocking primary locations while counting. When the counter reaches the primary location and sees the quantity is low, they restock it from the secondary location. This works very effectively. Along with restocking the primary location, the counter should be taking misplaced items and putting them where they belong. They are, in effect, cleaning up the bins and locations while counting. **Our goal is to achieve 100% accuracy between our computer records and our warehouse stock quantities.**

Once the counter verifies the actual stock count, move to the next item on the count sheet. If there are discrepancies after looking in every location, simply mark down what was found and move on. The next morning, work with others in determining if something was missed, taking one more shot at getting it right. If everyone is convinced all efforts have been exhausted, then adjust your computer system data to reflect the actual stock quantities. Hopefully, the next time that item is counted, you will not have to make other adjustments. If you find every time you count certain items you are making adjustments, I suggest the problem occurs most often at receiving and shelving locations.

You have roughly 200 days per year to count. By taking the 200 days into the number of items, multiplied by the number of times you want to count that item per year, you get a daily stock item count sheet. For example, for 10,000 items counted four times per year, you are looking at 40,000 counts. The 40,000 counts, divided by 200 days of counting, yields a daily item count of 200. That might sound high, but look at what is accomplished in terms of accuracy and related reduction in cost of errors. **The number of items counted is determined by the cycle counting method you have selected.**

There are many reasons why distributors don't cycle count. Whatever the reason, I suggest you at least give cycle counting a shot. You can always continue with the painful annual physical inventory, but when cycle counting is done right, you can eliminate this painful experience entirely. As you can see, an orderly warehouse layout and locator system is needed. You need to be dedicated to enforcing an en-of-day cutoff time. Control who goes into the warehouse. Establish goals for cycle count accuracy. Most of all, at least try it! It is as powerful as a good shot of penicillin in attacking a virus. **The virus in inventory management is identified by errors, lack of trust in the system data and monies spent to make customers happy – the second time around!**

# FIRING CUSTOMERS IS OFTEN REQUIRED

## By Scott Stratman

Wholesale distribution has come a long way since the heydays of the 1940's. Each decade has brought new challenges relative to how distributors operate and grow their business. In the early years, it seemed like a "Field of Dreams," with the byline of "build and they will come." The country was experiencing post-war boom years, followed by the surge of baby-boomers. Distributors grew at a fairly rapid pace, and meeting customer demands was the highest priority. There was even a period of years when the slogan of many businesses, was "The Customer is King." History has taught us trying to live up to that slogan can be very costly. We opened new branches, brought on new products, added people, and increased our value-added services to meet our customers' needs. Then something happened in distribution that has a grip on most vertical markets. Competition started to come from every angle, and pressure on gross margins squeezed them to barely acceptable levels. We still wanted to serve our customers, but we had to do it with some caution. We found out not every customer was a good customer in today's overly competitive marketplace. Some customers have been around for years and years, but like all businesses, they too have changed. While they might have been a great customer at one time, now they struggle to pay our bills, or have taken most of their business to the lowest provider.

We need to analyze our customer base each and every year to determine where we are making money, and where we are spending hard earned cash – reaping little to no reward. It is a fact all of us in distribution only have so many resources available to service our customer base. We only have so much cash, so many hours and so many people. We can't afford to have our inventory grow through the roof and move from a "just in time" inventory to a "just in case" inventory. We need to align our inventory and purchasing strategies with those customers who are providing the largest impact to our bottom line profits. The trick is to find out who those customers are, and what products and services they are requesting.

If you were to ask personnel to name your top five customers, you would probably get answers based on volume, hassle factor or number of times they call. If you ask them to name your top five most profitable customers, you would be surprised how many of them would name the same five. Unfortunately, many of us don't know the most profitable customers, nor the that ones drag down your overall financial performance. The best way to figure this out is to use a customer profitability analysis, or implement a detailed activity-based, costing strategy that drives down to a customer profitability analysis. These are great methods; however, implementing them can drain your resources. But, doing nothing is the wrong approach as well! I suggest you take a stab at trying to figure out your most profitable customers, using a simple approach. It is not an exact science but it will give you some sense of where your money comes from, and where it is foolishly spent. I want to emphasize this approach is meant to highlight your "losers." -- But more importantly, to drive you to analyze invested dollars on inventory to service those "losers." Since all of your cash is tied up in inventory and accounts receivable, quit spending money on "losers" and start allocating it on the winners in your customer base.

**Step 1** – Determine the cost of processing an order in your business. What I am after here is the cost of taking an order, packing it, shipping it and getting your money. Each of these stages has internal costs you assume are being covered in your pricing matrix schemes. For most distributors, the cost to process one order completely is around \$40.00 per order. Note that I am using a cost per order – not a cost per line item. If you can get to that detail with some accuracy, then **go for it**.

**Step 2** – Determine on an annual basis the following information for every customer you have

1. Total sales	3. Gross Margin dollars
1. Total Cost of Goods Sold dollars	4. Number of orders processed to achieve the dollars mentioned in 1, 2, and 3.

**Step 3** - Multiply the number of orders by the \$40 per order cost. You can use another number, if you have calculated it by some other method. This cost can change drastically based on the type of products sold and the services provided with each order. However, for most hard-goods distributors, \$40.00 would be a good place to start.

**Step 4** – Now that you have multiplied the number of orders by the \$40 per order cost, subtract that resulting product from the Gross Margin dollar figure for each customer. The result will be either a positive or negative number.

**Step 5 --** List out customers in descending order, the largest contributor to net profit to the lowest contributor (or the biggest loser, as you will hit the negative numbers quicker than you might imagine). The result is an Excel type spreadsheet like this. Surprisingly, you'll get to zero and negative after about 20% of your customers have been analyzed. It is the remaining 80% that have some negative drag on your bottom-line profits. While you could never fire all those under the zero net profit line, you certainly need to analyze how you are doing business with them. I recommend you look at each customer with a negative net profit, and determine how you can work with them to create a positive impact. What you will find is about 50% of those with a negative net profit can be salvaged. But, the remaining 50% need a more stringent course of action.

Wait, before you decide to fire any customer – add to the equation their accounts receivable balances and payment histories. What you will often find is that not only are you not making any money on their orders, but you are also banking them with you're A/R. Now you should be very upset, and moved to take some or all actions required to fire them. More importantly, look at what products they are buying from you and make sure you are not stocking products just for them. If you are, you are wasting a great deal of your valuable cash asset. Those with negative net profits should not get special services, should only be allowed to buy from your stock, and should not receive any special orders. You might also not allow them to return merchandise. In addition, here are a couple of other actions to consider:

- 1) Make them a cash-only customer;
- 2) Require immediate payment of past-due balances;
- 3) Change the pricing matrix such that they pay a higher price;
- 4) Charge for deliveries; and
- 5) Do not allow them to use any of your value-added services

I strongly suggest you make it an annual event to fire some of your worst customers. Use any method you want – **but, do it!** You will see the impact on your bottom line and your inventory. You will also find many of your employees are glad you did. Their time is valuable, and their efforts should be spent on those customers yielding a profitable return.

### Sample Report

## Annual Report

Customer Name	Sales \$	COGS \$	Gross Margin	#of Orders	C.O.P.O	# Orders times \$40	Contr. to N.P.
<b>Xyz</b>	<b>5000</b>	<b>3000</b>	<b>2000</b>	<b>10</b>	<b>\$40</b>	<b>\$400</b>	<b>\$1,600</b>
<b>ABC</b>	<b>4000</b>	<b>2000</b>	<b>2000</b>	<b>20</b>	<b>\$40</b>	<b>\$800</b>	<b>\$1,200</b>
<b>HGS</b>	<b>7000</b>	<b>4000</b>	<b>3000</b>	<b>50</b>	<b>\$40</b>	<b>\$2000</b>	<b>\$1,000</b>
<b>TBS</b>	<b>5000</b>	<b>3800</b>	<b>1200</b>	<b>30</b>	<b>\$40</b>	<b>\$1,200</b>	<b>\$ 0</b>
<b>VGT</b>	<b>8000</b>	<b>5400</b>	<b>2600</b>	<b>70</b>	<b>\$40</b>	<b>\$2,800</b>	<b>(\$200)</b>

# COMPENSATION PACKAGES REQUIRE CREATIVE THINKING

By Scott Stratman

We are in a strange working environment today, as the motivation for employees to stay on board, work hard and become team players requires a diversified compensation package. It used to be a good salary or hourly wage was attractive enough to keep people; however, with the dynamics of the workforce changing, people are motivated by more than just money. They are looking for stock options, flexible hours, extended vacations, floating days off, insurance options and future earnings potential. As business owners, we are challenged to find ways to make the most mundane jobs attractive enough for good people to stay with us. Compensation is often the method we use, as many of us cannot offer stock option plans.

The trick to develop good compensation packages is to find key measurements in every role, so that compensation can then be based on performance. There might well be two or three people with the same title and role earning different compensation due to performance. Historically, we have been very creative with sales personnel compensation plans, as they usually require more variables to be attractive. Most of them are performance based, using sales, gross margin, net profit and cost as factors. Often there are various tiers or levels – each one having a different net result for the employee.

Now, take the same premise and try to design similar multi-tiered compensation plans for everyone else in the organization. The trick is always to have measurements. For example, if you look at accounts receivable personnel, what measurements are available to pay for performance – what statistics can we monitor and report back in a comfortable manner? Without some statistical measurements, compensation plans tend to be more subjective. Purely subjective plans cause unrest and sometimes dissention among employees. Measurable tasks need to be identified and reviewed. In the accounts receivable area, there are things like: days outstanding, amounts collected in a certain period of time, number of times customers are contacted, follow-up calls made, and bad debt write-offs collected. These are all statistics that can be measured in a rather simple format. Being even more creative, look to accounts payable and determine how many times they take discounts offered, discounts forfeited, vendor deals, payment schedules negotiated, etc.

In the warehouse (vault), many of us have difficulty keeping people motivated and challenged to give superior performance on a regular basis. Vault personnel are, in fact, cash managers in terms of working with our largest assets (inventory). They need to fully understand the impact of tracking and managing the inventory (cash). Since most of what is heard from customers relates to the receipt and shipment of product, inherently there are a number of measurements. We could use: the number of shipments received and put away within a specified time period; the number of shipments to customers per day; the number of orders picked per day; or, cycle counting accuracy (require a high rate of around 95% and above). The vault needs to be cleaned nightly before going home. Transfers to other branches need to become a priority, and we can easily measure how often those branch transfers are sent on the day scheduled.

Purchasing personnel also have various measurements that can be used in performance-based compensation programs. For those doing budgets, keeping on target or within a certain range of the purchasing budget is a measurement. Annual purchasing dollars managed, the number of new items managed in a certain timeframe, the number of rebates negotiated, payment plans negotiated, and favorable return options negotiated are also measurable. New items create a series of measurements for purchasing personnel. What initial costs can be negotiated with the vendor? How often can unsold products be returned? Can you get restocking charges negotiated before taking on the new item? New items need to be managed closely, because they are the number one source of dead stock. **Therefore, managing the dollars invested in new items becomes extremely critical.**

In addition to managing new items, purchasing personnel have the best handle on replacement items, slow movers, dead stock items and superceded items. Each of these categories of stock has cash impacts on the bottom line. Working in conjunction with the Sales Manager, purchasing personnel can highlight replacement items and superceded items, so they are

not stuck with them in the future. Slow movers and dead stock items also can be moved in conjunction with creative sales programs. The trick is to identify them early, and develop a program that sales can implement. If early identification happens (before the item is totally dead and not moving), be creative in incentive programs. Develop teams of sales personnel and purchasing personnel to attack these items. Bonuses or some incentives for the team can be helpful in reducing average inventory value – and, more importantly, our dying and dead stock.

Branch managers need compensation programs that are both tough and flexible. Tough from the standpoint they should include plenty of “wins and losses.” If branch managers are in complete control of what they carry in inventory, there needs to be some incentive (or disincentive) from keeping excess inventory on hand. Branch managers will keep an abundance of stock on hand if they can get away with it, because they never want to be out of anything. Most of them have a sales background, and therefore have never been trained in good inventory practices. They want to service customers at the highest level, even if it means keeping lots of slow movers and some dead stock on hand.

Good branch compensation programs have similar foundations. Inventory is “pushed” out to the branch, based on current on-hand quantities and sales activities. A minimum and maximum inventory level is used to direct the replenishment process. This keeps the inventory moving at a fairly rapid pace, and prevents overstocked items from sitting out at the branches. If you do not use the “push” method, monitor the inventory using other methods. A couple of ways to help manage cash (inventory) in branches is to have: disincentives (“take-aways” from bonus) for excess inventory; on-hand dead stock, slow movers on-hand; and, special orders till sitting on the shelf. These disincentives are designed to keep the manager’s eyes on the total picture and cash pot. If you only pay on salary and a yearly bonus, you are allowing them to figure out methods to beat the system. Design your branch compensation plans so that you give them numerous ways to increase personal compensation, as well as helping improve the overall net profits. Increases in sales dollars, increases in sales percentages, increases in realized gross margin, reduction in bad debts, management of special orders, collection of outstanding balances, maintaining average inventory values, and increases in net profit are all possibilities for branch managers. Another one to track is the number of branch transfers. Branch transfers are usually used to get stock for a customer when the requesting branch is out of stock. However, branch transfers in many cases are not prudent net profit decisions, as we usually end up paying for freight costs of the transfer. If transfers are used often, track the number of times the branch manager has been able to get customers to pay for freight, rather than having him just eat the cost.

Compensation plans are a challenge for every distributor. How to keep good people is a main concern for many. Compensation plans alone will not provide the answer, however they are a great help. In today’s work environment, employees are looking for more than just money. Days off, extended weekends, flex time, insurance plans, 401(k) plans, profit sharing and stock options are all part of the mix. Since everyone in your organization is somehow involved in cash management, being creative in compensation programs usually helps keep their eyes on the cash pot. Many distributors have changed the way they pay over the years, because they realize just an hourly rate or an annual salary wasn’t working anymore. Cost of living increases become too subjective in many cases – and, people end up leaving for what appears to be the smallest of increases. Your goal is to design programs that create excitement, create a “win-win” environment, and allow personnel to be part of the game 365 days a year. If they have to wait for a potential “holiday or year-end” bonus, they will not focus as hard on the tasks at hand in June or July. They are just working for a set amount, and the potential bonus seems to far off to mean anything in the heat of the summer.

Try very hard to be as creative as possible when designing your next compensation programs – even breaking “old school” rules. Give everyone in the organization the possibility of getting paid for performance. The trick is to use measurements that can be tracked and compared. Get employee “buy-in” by having them sign their next compensation program. Allow them to ask questions to fully understand the “wins and losses,” or the incentives/ disincentives they are agreeing to for the next year. Remember, everyone in your organization is managing your cash (net profit); therefore, design your plans to keep them enthused about their cash management roles every day of the year.

# THOUGHTS ON DEAD STOCK MANAGEMENT

By Scott Stratman

Over the past 20 years of presenting to distributors, I always ask audiences to show me the hands of those having dead stock on hand. I am amazed that almost everyone raises his/ her hand; and, I've heard endless stories of distributors dealing with dead stock. Some are happy stories in that they found it hidden in their warehouse and actually got rid of it. Some are sad stories of misfortune and lost money because the dead stock continued to grow and soon overtook the good stock in terms of warehouse space. Dead stock is a product of purchasing, sales, accounts receivable and company philosophy. **There is no one person or group of people to blame for dead stock.**

Dead stock is too often purchased because of lack of knowledge and communication between sales and purchasing. It is sad how many times distributors have actually bought dead stock, received dead stock and put away dead stock, without ever realizing that it was dead on arrival (D.O.A.). Oh! I know it sounds crazy, but it happens all the time. It could be the edict of the company president to bring in all kinds of stuff to enhance selling opportunities, not looking closely enough at the product mix to know some of it is D.O.A. There are many reasons why dead stock still lives and breathes in our businesses. Some of the reasons actually do make sense (well – not to everyone, but to at least a few in the organization).

Dead stock happens! It would be great if each day you could walk through your warehouse (vault), take a very deep breath, and just find it by walking toward the foul odor. Yes, if dead stock began to stink once it got close to being really dead (like fruit or veggies), we would act more quickly to eliminate it from our vault. We've all had the experience in our kitchens when we open the fridge and a foul smell greets us while looking for a cool drink. It would be great if that were the case in our warehouses – simply sniff, investigate the source of the odor, and then deal with it.

Unfortunately, dead stock does not smell bad and it is not easy to find. Therefore, you need some hound dogs in your business to sniff it out. These hound dogs need more than a good nose; they need system-generated reports to point them in the right direction. They need sales reports by: product; product class, region; sales person; and date. They need to use the "hits report" telling them how many times in the past year each product was sold, comparing it to the number currently on hand. They need to know the dollars invested in the products on hand, to determine a selling price that helps move those items out of inventory. They need help and support by everyone on the management team to move those products. Dead stock management requires action steps that must be carefully planned and followed throughout the year.

**Step 1 – PREVENTION.** Prevent dead stock from coming in as D.O.A. inventory; Prevent new items from being loosely managed – it allows them to become dead stock instead of ridding yourself of the investment; Prevent sales personnel from directing the purchasing department on what to buy, instead of using good inventory practices to determine inventory levels; and, Prevent branch managers from keeping excess, slow-moving and dead items in their inventory, without some disincentive in their compensation plan.

**Step 2 – IDENTIFICATION.** Identify those items with dying sales and/or no sales activity at all; Use of a HITs report is very helpful to identify dying and dead inventory; Use of a HITs report allows comparison of the on-hand quantities, the sales (or HITS) in the last 12 months and then calculate a months supply on hand; Maintain inventory costs on this report; and, to give yet another figure to focus, take the month's supply quantity & multiply it by the carrying costs. You quickly begin to see how expensive it is to keep this inventory on hand. It might spur you to take action more quickly than in the past. **Once dead stock has been identified, it is a good idea to separate it from the good stuff.** You might want to move it to a certain area of the vault, thus having it quarantined for ease of movement. You might do this by putting different colored stickers or labels on it, keeping it on the shelves. However, if you move it to a specified area, it is easier to see, identify and it creates more of a focus on the growing challenges at hand. Once identified, go back into the system and freeze the purchasing controls for those products. Freeze codes allow you to freeze purchasing parameters and not allow those items to be reordered, unless done so on a special order basis. Some distributors think that if a product is dead, it cannot reproduce. Wrong! If it is not quarantined in the software, it always has the possibility of

showing its ugly head again in your inventory.

**Step 3 – COORDINATION.** Coordinate the efforts of management, sales and purchasing to keep new items to a minimum, if possible; Coordinate the efforts of purchasing and sales personnel to keep the dead stock items at the forefront in an effort to move them; Coordinate the efforts of all personnel to understand what steps will be taken to move those items; and, Coordinate the timeframe for each action step implemented, establishing goals and cutoffs for the action steps taken (disallowing plans to run on and on).

**Step 4 – DISPOSITION.** Disposal of dead stock can take many forms. It can be given to: the sales personnel for them to sell – even giving them incentives for moving blocks of it at a time. [However, if it hasn't sold in the past, this usually yields mild results.]; Lower the price just to get it out of stock usually yields some success; Donate it to a charitable organization, taking the tax write off; Re-package it with “good items,” selling it as part of a package deal; Bundle it into groups and talk to your better customers, asking them to take the entire bundle at a certain price; Hold a semi-annual or annual “garage sale,” grouping dead stock with good items -- setting a goal to sell it all during the one-day “garage sale;” Or, you could just throw it away!

Over the years, the most effective method I have implemented is to create the position of a Dead Stock Manager. This person has the responsibility of taking all dying and dead stock items and making them disappear. They are compensated on their success of reducing the dead stock inventory – thus, you average inventory value. They also can take any new items that have not sold, and coordinate their disposition (remember, new items are the # 1 source of dead stock). This person should report directly to the President of the company, as tough decisions will have to be made. They are the **supreme cash hunters**. They should be given an “inventory obituary,” at the end of every month (those items with no sales, or dying sales in the past 12 months). This is their list from which to work for the next 30 days. It is their job to make sure none of the items listed on the obituary are still in the vault, by the time the next obituary is printed.

Understand that this person will not be able to get full price – maybe not even half price or cost. Their job is to get something – anything in terms of cash recovery. To pick up a huge gain on these items is not the goal here, but rather it is trying to cut losses and reduce carrying costs. The Dead Stock Manager also should handle all returned merchandise – another pot of cash sitting in many vaults. Many times I hear, “someone will handle that stuff sometime.” But, as most of us know, there is never enough time and usually no one to deal with it. Often it sits and sits and builds! Then someone takes a whack at it every six months or every year. With this specific management area, you have a person whose job it is to turn all that back into cash. They process the returned merchandise credits, and handle the disposition of the returned items. They determine if it should go back into stock, should be returned to the vendor for credit, is covered by warranty, or should be thrown away.

Dead stock will be around as long as distribution exists. There are no easy or simple answers; but, there are action steps that help ease the pain and cash burden. I always ask those attending my seminars to share any creative dead stock disposition ideas. I am encouraged by the creative approaches used – creativity and dedication are key ingredients to success. I encourage you to make dead stock management, using all the steps mentioned as a priority. Hopefully, someday your dead stock manager will work his or her way out of a job. That would be the mark of ultimate success. Good Luck – and, please start now!

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