

THE DISTRIBUTION TEAM ADVISOR

Advice for Today's Distributors

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Your Most Valuable Asset

Ever wonder what makes you unique? If you did a personal inventory of your assets (height, weight, hair color, personality, etc.), you would find that you have something unique. It might be your personal passion for community service or a sporting event that is not well known. Whatever the case, we all have some unique assets that help us get through life. Now do the same asset inventory analysis for your business. Look at every aspect of the operation and determine the uniqueness. Do you have unique products not found many places? Do you have unique selling and marketing strategies not found before you rolled them out? Do you have unique locations that provide unparalleled customer service? One thing you will find when you do this type of analysis is that almost all of your uniqueness can be driven back to people (or maybe a person).

I am hoping that your most unique asset is NOT that you have the largest accounts receivable balance in the industry. Assets fall into general categories like people, accounts receivables, inventory, service proposition and brick and mortar. It is your challenge to figure out which of the assets are your most valuable. It is usually true that your largest asset is inventory. In most cases, it is the one that has the largest impact on your bottom line results. How it is purchased, what happens to it when it arrives, how good we are at picking and shipping it right the first time, and what we do when it goes nowhere, all impact your net profit. We spend countless hours working on making our inventory right. OK, right is a relative term in distribution. It can be right if it is within our budget. It can be right if we have what our customer wants when they want it. It can be right if it moves. It can be right if we buy it right. However, there are many times when it is not right. No need to list those reasons out here, as it would take too long.

Your inventory balance is a function of how well some of your other assets work. People have a huge impact on your asset success ratios. All assets have some performance ratios to help you manage them. Inventory turns is a commonly used calculation to track how well we are using our inventory asset. Revenue per employee is another often used analysis. But where is the ratio that tells me how well our people are using our software to manage our inventory? Where is the ratio that determines if your purchasing personnel understand how to control your inventory expense? The bottom line is that people are one of your most valuable assets. You need to make them work at the most efficient level possible. Better said, provide an environment for them to work more efficiently. To make that happen, you need to give them tools and training. You cannot expect them to hit performance goals with just the knowledge they acquire from being around a long time. We all know this happens way too often. There is Joe in the warehouse who knows here everything is located. Why? Well because either Joe put it there, or he told someone else to put it there. Or maybe he just spends countless hours running around the

warehouse looking for products, and along the way he found everything else. The problem is the Joe does not pick every order. Joe does not receive every shipment. We have many others who work in the warehouse who need to be as “smart” as Joe.

Getting people up to speed relative to managing your assets takes a huge investment in training. It might be some sort of intensive cross-training in areas that make sense. In times that are not as favorable as they once were, the dollars spent on training seem to disappear from the budget. Wrong idea my friends. Training is an ongoing thing. What you spend on training usually yields a return greater than the dollars invested. Training should be budgeted for every department. One area training should be paramount to success is in purchasing. These folks spend more money than anyone in the company. They are often asked to use tools (some very antiquated) to guide them through the check writing process (writing P.O’s to the vendors). They have to deal with numerous ordering control fields, features and functions that frankly might be foreign to them. They rely on the system generated data to help them decide what to buy, how to buy and when to buy it. Your largest asset success ratios are dependent on them knowing how to use the tools properly. For example, let’s say that we think we have the software system running pretty smoothly but we are always out of whack with our inventory. Where do we turn? Some of us beat up the purchasing personnel and just stop there? Some of us go after the warehouse folks and brow beat them. How many of us actually look to root causes like – maybe they do not know how to use the software! What would happen if we had just a couple of the major inventory control fields set to the wrong variable? What impact does that have on our asset base and our service proposition?

Another training area that needs attention is the warehouse (vault). These folks often learn by osmosis. You know how it’s done – one person follows another around until the newest person gets smart. What warehouse training have you done lately? Do your vault personnel ever get training other than osmosis? Do they understand your products well enough to know which need more care than others? Do they understand your profit initiatives by product lines or vendor? Have you ever explained to them what is expected for them in terms of performance? Do you have any performance ratios to measure their work effort? Are they included in your vendor training sessions? Do they know how to read the system reports to help you monitor your largest asset? I would say that number two in terms of priority should be training for the vault personnel. Once you get the products here, managing them properly through your warehouse-vault-or maze has a direct impact on your profit proposition.

We tend to provide a great deal of training to our sales and customer service personnel and not to our other asset managers. This has a huge impact on our overall service goals. Having front line folks well trained and not training the back line folks is a defeating proposition. If you have great sales and customer service folks and cannot back it up with product and delivery, your net profit suffers. Investing now in training might seem like a tough deal given today’s economic picture. Heck, the DOW went under 8000 for the first time in years yesterday. We are all looking for ways to cut expenses and maintain some respectable profit margins. However, those who have not cut back on the training are the same ones who will be better prepared for the next wave of a good

economy. Those who are investing in better tools now (heck many of the tools you can buy to help your personnel are also cheaper now), also are the ones that will rise faster when the economic indicators rise. Those who have decided to pull in all the wagons will take longer to untangle them when it's time to run hard again.

Your assets are your people. What you do with them will have a huge impact on your "other" assets. Having been in business for 20 years, I can tell you that weak economies serve a purpose in business. Just like in the jungles of Africa, the strong will survive. Weak economies weed out poor competitors. The ones that came in with a pricing strategy that made you sick, stole some of your business and lowered your margins. Now, will they survive with a weak infrastructure? I suggest they won't. Yes they made life more difficult for you to do business like you always have. Yes they screwed up some of your customers. Yes they caused you to lose your hair and some money. However, those of you who decided to continue to make your assets stronger will win in the end. Those of you who invested in making your strongest assets stronger will survive. Those of you who invested in tools in a down economy have a better arsenal to take to market on the sunnier days. Your largest asset may be inventory, but your best asset is your people. Just remember that the assets of flesh and bone have a huge impact on the performance of the assets of brick, mortar, steel, plastic, copper, metal or rubber. Invest now when the tide is low and be ready for when it rises over your head. Cause when that day comes, you will be running too hard to step back and analyze the peril you face. And, congrats to those of you who are investing now. While no one is probably calling you a visionary today, tomorrow they will know you as the best asset utilization company in the market

Make plans to attend The Distribution Team's Inventory (Asset) Management Seminar

- Where:** Colorado Springs, CO
When: November 14th & 15th, 2002
Why: Because those thousand or so distributors who have attended in the past have made substantial improvements in their net profit propositions.
How: Send an email to Scott Stratman to receive an invitation. Email requests to Sstrat9@aol.com. Go to www.thedistributionteam.com to review the agenda and see why you need to be there.
What: A take home hit list of proven money saving ideas YOU can implement to improve net profit.

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