



The Distribution Team

We wrote THE BOOK on Distribution Inventory Management

Distributor Power Tools: The HITS Report

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Have you ever wondered how to get more out of your distribution software? Most of us use less than 25% of the capability built into the package, yet we paid 100% of the cost. Now I'm no math major, but that just doesn't seem to fall into the category of "best practice". Over years of working with distributors and software packages, I have come to realize that the best way to get your moneys worth is to master the art of extracting data into meaningful reports. Over the next few months, I will discuss the merits of three power reports that can help you maximize your investment in any distribution package. The first one we will tackle is the HITS report.

The HITS report is a little like an SKU popularity contest. We are trying to determine how many times a customer has ordered a specific SKU in a calendar year. In this report, I am not concerned with how many units they purchased when they placed the order. I simply want to know how popular an item is with our customer base. Each order is recorded as one hit.

Right about now, many of you may be asking, "How do we account for requests for items that we currently do not carry?" Or "How do we account for lost sales because we did not have the product in stock?" These types of situations are very hard to capture from a systems standpoint. Actually, the systems can capture the data, if someone is willing to record the event. I spent many hours taking customer orders over the phone and counter. The last thing I wanted to add to my workload was to create a non-transaction. Let's be realistic here. If you are determined to account for these occurrences, give the customer service person an easy method of recording the data. Something as low-tech as keeping a lost sales notebook next to the order taker will help.

Once the report has been generated, we can use it for several different inventory management tasks. The most beneficial uses are: organizing the products in your vault for logistical efficiency, helping speed up the cycle counting process, sniffing out the nearly dead items in your product mix, and determining how much safety stock to apply to an item.

I grew up in a warehouse environment where we chose to keep all products from the same vendor grouped together. The products were arranged by manufacturer SKU number so that a picker could find something relatively quickly. This was before bin locations became integrated into our distribution software package. The problem with this arrangement is that order pickers found themselves traveling all over the warehouse each time they filled an order. If you have a small facility, this doesn't really seem like too big a deal; but if you are working in a larger warehouse, these additional footsteps really add up.

One of the ways to improve the efficiency of your order pickers is to change your warehouse layout based on product velocity. Using the HITS report, put your most popular products closest to the shipping point. As you move further away from the shipping point, the products become less popular. When you arrange your facility by product movement, you will notice that most of the activity will be occurring in the first couple of rows. I was discussing this at a recent conference and one of the participants confirmed that most of the picking occurs in only the first row of his facility. Make sure that you give yourself some extra room in the first couple of rows.

You don't have to set up the facility in the exact order from the report. I have seen several different adaptations on this theme. One client has created a small high pick zone located right next to the shipping dock. Another client has been experimenting with using a carousel conveyor system for their high pick items. I like using the zone approach because of the different shelving requirements needed. Remember the goal here. We are trying to increase the efficiency of our pickers by reducing additional footsteps.

If we set up velocity zones, we have automatically created an easy way to count our most popular items more often. One of the difficulties with cycle counting by velocity is that we usually have to move around the facility looking for our high pick items. This is especially true when the products are grouped by manufacturer. With a zoned facility, your counters can really focus their attention where you need it most. Most inventory discrepancies will occur in your highest velocity products. Obviously, we should count those most often. I recommend that you shoot for 8 full counts of your fastest moving products in one calendar year. How cool would it be if the top 10% of your SKUs were dead nuts on, no questions asked?

Most distributors struggle with dead inventory. This usually ranks really high on the list of management headaches. When the dead stock dollars rise too high, there is usually a concentrated effort on blowing out the material and cleaning up the shelves. Once the threshold of pain is met, dead stock management usually returns to its rightful place on the back burner. As items continue to lose favor with our customer base, the death toll rises and the whole cycle repeats itself. So how do we stay ahead of the game?

Our HITS report is an excellent tool in the battle against rising dead inventory. As a product begins to reach the end of its life cycle, it will fall lower on our report. An

interesting bit of research, for those of us geeks who like to explore this stuff, would be to track the hits on a product from introduction to demise. In order to get ahead of the dead stock game, we should establish a terminally ill point on our report. Over the years, we have seen that 4 hits is a good threshold for most hard goods distributors. When a product falls below this threshold, you should consider converting it to a non-stock status. Go ahead and take a look at your list. How many stocking items fall into this category? How many dollars are tied up in these items? How much shelf space are you allocating to items that your customers are clearly not interested in?

There are some exceptions to this 4 hit threshold. If you have an item that is part of a bigger item, you may wish to keep this as an active SKU. For example, you should keep a repair part for the fastest moving air conditioner unit in stock. It may fall below the 4 hit threshold, but when your customer calls, you better be able to say yes. Just manage the on hand quantity of these items. Sometimes we want to be able to fill out a display in our showroom. There will always be the oddball size or color that fits on the plan-o-gram. Don't try to raise the non-stock threshold too high. It will begin to affect your service level and your phone may ring a little less often.

How much safety stock should a distributor carry? True to the consultant's credo, I will say it depends. Safety stock is really there to cover us during times of uncertainty. If we knew exactly when every customer needed our product and exactly how much lead time it required to receive the product from our supplier, we probably wouldn't need much in the way of safety. Thank God, we live in a world of erratic supply and demand or we couldn't charge the prices we do.

I like to look at setting safety stock levels as a way to say yes to our customers as many times as possible. At the same time, we need to balance this concept with our financial responsibility to the company. In order to make the most customers happy, I should really concentrate on the items that they buy most often. Enter our HITS report. One of the most common consulting phone calls I receive goes something like this, "I keep running out of my fast moving items and I have a mountain of my slower moving stuff." The solution to their dilemma usually resides in setting the safety stock.

Most distribution software comes out the box, metaphorically of course, with the safety stock set equally across the board. It is up to the user to determine which products should be set higher and which should be set lower. Do you remember the set up process of your software? What was top of mind on the go live date? I would hazard a guess that setting the safety stock properly didn't even grace the top ten. By leaving in the factory defaults, our package treated all items the same. Thus, our fast movers sold out before they could be replenished and the slow movers kept piling up. Have I struck a cord with anyone?

Use the HITS report to set your safety stock percentages. Give the top 5% of your items, by popularity, a high percentage. A 100% safety stock percentage is not a bad place to start. As items go down the popularity continuum, drop the safety stock percentage. Once you reach the 50% mark on your entire inventory of active SKUs, ask yourself if safety stock is really necessary. Why invest a bunch of money in items that your customers are not that interested in.

Using this report and many others like it will help you increase the return on your technology investment. I will explore a couple more reports in future articles. If you need some help getting started, or a sample copy of a HITS report, send me an email and I will be happy to point you in the right direction. Good luck.

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