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BY JOAN ADAMS

Bloated Inventory – The Silent Killer

Inventory is the very heart of any distribution business – and like the human heart, it stays healthy when you maintain a low-fat diet. If supply houses had diseases, bloated inventory would be known as the silent killer. So how is it that many supply houses build up and maintain ridiculous amounts of inventory?

First, psychologically – inventory feels good. One only has to walk around the warehouse to get that good inventory feeling. Look at all that stuff we have!!! We have rows and rows of gleaming stainless steel valves, racks and racks of pipe, fittings and flanges of every size and grade imaginable. Inventory is a big warm security blanket. It gives the owner certainty. He knows that whenever a customer places an order he will have the item, right there, in stock and in quantity! Unfortunately, this is a false sense of security. This “warm and fuzzy” blanket comes with some not so warm and fuzzy costs.

Let’s talk about how and why supply houses, thanks to that false sense of security, get sucked into buying and carrying way, way too much inventory.

CLASSIC EXAMPLE 1:

A vendor drops by one day with an offer to sell four pallets of valves for 50% off. Suddenly, you feel like you have won the lottery! These are expensive valves! You could never get that kind of price before. He is dangling a very attractive carrot right in front of you and you find yourself wanting to buy those valves, right now, no questions asked, no reflection on just what you are going to do with them. Your instincts tell you that you have to buy them now – before he offers this deal to somebody else.

Before you buy, think about this:

Why is this vendor selling high-priced

*It’s hard to resist
what seems to be a
great deal, and it’s
hard to suffer the loss
of a single sale.*

valves for 50% of their value? (Hint: A sudden spell of irrational generosity probably isn’t the reason.) He knows something you don’t know. He took a quick look at the sales trend for these valves and saw that they are already on that brutal downward trajectory of becoming obsolete scrap. He wants to dump these valves and he wants to do it ASAP. The vendor’s goal is to get at least some money for them. In short, the vendor doesn’t want these valves on his shelf, on his books or even on his sales team’s mind. The vendor figures it is better to sell them at half price rather than hold on to them for another year or two, hoping for a few more full-price sales and ultimately having to scrap them. You should be thinking the same way.

The offer is still hard to resist: high value valves at half price! If this urge to buy is still there, do your homework and ask yourself the following questions:

1 How many of these valves do you already have?

If you already have lots of them – you don’t need any more.

2 How many did you sell in the last three months, the last six months, the last year, the last two years?

Maybe you sold many of these valves some years ago. Maybe recently, you had one large order. This is not regular

demand – these are not items that you sell to your customers month in, month out. So face it, while you have sold some over the past years, in fact these valves are not in demand. And it is very risky to buy them simply hoping for another big (anomalous) order.

3 To whom did you sell these valves in the past?

Do a quick reality check – pick up the phone. Before buying more of these valves, you need to know if these erstwhile customers will be buying any of these valves sometime soon.

Let’s dissect this “great deal.” You probably already have a bunch of these valves and they haven’t been moving. You have checked the past consumers of this valve and they won’t vouch for buying more. This urge to buy is exactly the false sense of security that will kill you. This is not some wonderful deal. The vendor could offer to *give* you these valves and it still wouldn’t be worth it. Just say no.

Yes, even “free” inventory costs you. Here’s how:

You pay people to take it off the truck and to stock it in the warehouse. The IT guy has to monitor it in the database. That “free” stock takes up shelf space – space you pay for every month – space where you should be stocking inventory that your customers actually *want*.

CLASSIC EXAMPLE 2:

An important customer calls to place a big order for some kind of specialty fitting – and you don’t have it, you don’t even carry it.

You get that horrible sinking feeling – I am going to lose this sale and maybe this customer. You get the purchasing guys and

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some of the inside sales guys on the phone calling vendors in a mad search. Somebody finds a source and you are determined not to get caught short again – so not only do you buy enough to fulfill the order, but you buy extra for stock, thus adding a new item to your inventory.

So, what could possibly be wrong with this scenario?

There's a reason why you don't carry these fittings. Historically, none of your customers has ever wanted one. It is a product that doesn't fit with your customer demand profile or your sales expertise.

There's a good chance that this is a one-time order. Those extra fittings you order anticipating more sales may never move. They will take up space in your warehouse, in your database, in your sales force's heads.

The supply house's goal is to fulfill the customer's order – not to add new items to inventory and immediately buy a lot of stock every time a call comes in. That urge, that warm inventory feeling, that desire to be ready for every possible order, causes warehouses to add new items to inventory that just don't belong there. New items are the biggest single source for dead (non-moving) inventory.

Currently adding a new item to inventory is probably easy – your first step should be to create a process by which it becomes somewhat difficult to add a new item to inventory. First, before buying there should be some discussion about the new item:

- Find out if demand might grow. Poll some of your larger customers to find out about possible interest.
- When adding an item, develop a (very) short-term plan. If sales do not reach a given level in a very short time frame, the item is dropped and the inventory is returned to the vendor.

Bloated inventory has huge hidden costs that can do irreparable damage to your firm. Get those inventory levels down and restrict the number of new items added to inventory. Inventory is the heart of your business – so be good to your heart! <<

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