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Column: Real Clients, Real Stories

Lisa Kianof • Oct. 04, 2010

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Every distribution company that's enjoyed success will tell you their fortune is based on the balance of the three points of the distributor triangle:

1. **Inventory** – Know what you need to manage the cost of carrying inventory in the warehouse while staying responsive to customer needs.
2. **Customers** – Build loyalty by having the products your customers need, when they need them and for a fair price.
3. **Suppliers** – Know their strengths and weaknesses and manage the relationship with suppliers for timeliness, reliability and value delivered.

Fran Distributing Company, a regional leader in the medical and electronics parts business, saw positive changes by adopting “Best Practices” for managing inventory and building customer loyalty, as we saw in my last two columns on distributors in July and August (www.CPATechAdvisor.com/go/2916; www.CPATechAdvisor.com/go/2958).

The last leg for Fran (not the real name) was to take the same proactive initiative in their focus on suppliers. So what was it that would benefit them while enhancing the relationship with their suppliers?

- Comprehensive information on items they buy from each supplier.
- Improve accuracy and delivery time: what they need, when they need it.
- Improve purchasing processes to take advantage of volume discounts and bulk shipping.

- Easy visibility to all this information so Fran's team had accurate

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and centralize information in their Business Management system so any team members could access key information, such as the following:

Who Carries What? Now stored in each Inventory Item Record is the list of all suppliers that carry that item. Fran can now easily get a comprehensive list of who carries what, and that makes it easier to choose the right supplier based on the need or situation.

How Long? The expected lead time — how long it takes from order to delivery — is now documented for the suppliers of each item. This was important because some of their overseas suppliers had better pricing, but delivery time was longer. For customers who needed something quick, price could be secondary. With better information, Fran Distributing is now able to customize purchases to best serve each client's unique needs.

Price breaks? The Fran team is now tracking suppliers' quantity price break information in their Business Management system, which allows customer service reps to better meet client needs. A recent winning example was the customer who got a great price on a large order of electrical connectors because the Fran rep could see the information in the system and was able to suggest the right quantity for the circumstance.

Multiple Units of Measure? By setting up multiple units

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quantities to purchase for stock and orders. Not anymore! Fran has identified a primary supplier for each item and has added to their Inventory Item Record information such as EOQ (Economic Order Quantity), reorder point, minimum order quantity and maximum on-hand number. Now the system quickly and easily generates suggested purchase orders to fill inventory needs based on the information in the system.

Whose ID are we using? Fran often had multiple item IDs for the same product — their internal ID, the supplier ID and customer-specific IDs. Reps often got confused and sometimes lost business by telling a customer they didn't have stock on an item that was in the warehouse with a different item number. In one case, they ordered the wrong product for a client. Fran used their internal product number for an order instead of the supplier's number, and then had to pay shipping to send it back to get the right product. Adding insult, the customer was less than happy with the delay in delivery. Now they've taken advantage of functionality in their system to relate all the different item numbers. It is basically a translation table between the IDs, and it has definitely made it easier on everyone.

In addition to the big changes, Fran has also benefitted from some

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for each purchase of an item from each of their suppliers. This information helps them decide who to buy from the next time.

Fran now has the ability to distribute landed costs —

freight, duty and more — to the cost of an item. The system can allocate these costs to the items received. Fran's team chose to do this by quantity, although the system was flexible enough that they could have used dollars or even weight for the allocation. The win is that it lets them see the true cost of product. In the past, the sales team may have underpriced a product to a customer because there was no clear view into what additional costs were

associated with the product. They learned that lesson when a rep stocked up

on some inventory from an international supplier who quoted a great rate that

turned out to be very expensive when they added in shipping and duty.

Like the three-legged chair that wobbles or can fall if everything is not in balance, the wholesale distributor needs balance in its dealings with customers and suppliers as it manages all the costs tied up in inventory. Strengthening their position in only one or two areas will leave them weak and at risk. They need to follow the example of Fran Distributing and be sure they are taking advantage of best practices in all their dealings related to inventory, customers and suppliers. And if they do that, their three-legged chair will be the foundation that puts them in the best seat in the house.

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