Column: Real Clients, Real Stories

Lisa Kianof • Aug. 01, 2010

From the August 2010 Issue

Fran Distributing Company saw the economic downturn strike home in the fall of 2009: Cash reserve hit near bottom, reports continued to show orders were down and CEO Fran Rodgers got a letter from the bank stating that it was reducing their credit line by half.

It was always a point of pride that Fran Distribution (not the real name) was a regional leader in their medical and electronics parts business. Their well-stocked warehouse had separated them from the competition, and their strong cash position and flexible line of credit supported that business model for 15 years. Now the dynamic had changed. What options were there for an inventory-intensive
parts distribution company?

INVENTORY WAS SACRED

Their broad inventory selection had always been the differentiator, and Fran was not willing to change that or their rapid delivery service. Her questions:

- Could they reduce their cash needs without impacting service?
- Could they change any processes to reduce the financial burden of their large inventory?
- Could some inventory carrying or fulfillment expenses be cut?
- How much could their current system help?

They started with a physical inventory to identify any discrepancies between what their system showed and what they actually had in inventory. Many were surprised at the difference in the two numbers. As they began to "peel

had items with expiration dates. They had no process to identify this important
information when the items were received into inventory. So when they did this inventory count, they discovered that nearly 15 percent of their goods from these suppliers had expired, reducing their value to zero ($$$$). It was like burning money.

2. Rush Shipments: They were meeting the company mission to deliver quickly to customers, but it was a shocker to see nearly 20 percent of their customer orders required a rush shipment from their supplier due to being "out of stock." Fran Distribution incurred extra shipping expense ($$$$) and an additional loss because volume price breaks were often
eliminated ($$$$) when purchasing smaller quantities for these rush orders.
This was another case of burning money, where the goal to keep customers happy
with fast delivery was reducing margins dramatically.

3. Alternative Parts: As they counted inventory, they noticed some anomalies, one of which was that battery orders stood out. Fran stocked
brand names like Duracell, Eveready and Rayovac. The reports showed plenty
of Eveready batteries in stock and several rush shipments of Duracell and Rayovac orders to customers over the last six months, all of which incurred extra ($$$$) shipping charges. Could they not substitute with customer approval?
Sure, but there was no prompt to alert their customer service team to

suggest

a
different item, with a longer lead time. Fran would probably have to fire sale the old product unless they lucked into finding a new buyer for it. Worse,
their relationship with this long-standing customer was at risk since they were ($$$$) out of stock the last three times the customer ordered the new product.

5. Seasonal Fluctuations: Several of their large customers
had seasonal fluctuations in purchasing, but Fran's analysis of inventory showed they were not adjusting for this. The effect was to tie up their capital
($$$$), keeping stock levels high on these items year-around when they only
needed those higher quantities for about five months. It impacted cash flow.

Fran Distribution's list of five big problems headlined its final list of "wants" in a new system that could help the company be successful for the next 15 years. Their defined scope made it easy to eliminate business management systems that weren't integrated or could not deliver the processes, workflow or metrics as they needed them. In the end, they made an investment in a system. More than that, it was an investment in their business. Here's what they got:

- The ability to assign lots to their inventory items with expiration dates that were easily visible. Employees know immediately which lots are oldest and to sell those first. The change brought Fran's expired inventory costs down from 15 percent to less than 5 percent ($$$$).

- On demand reporting that shows purchases and sales by month and by customer.

  This meant that the next time they were out of Duracell AAA batteries, an alert popped up offering the option to substitute Eveready or Rayovac AAA. It's no surprise that customers were just as happy with the alternative or substitute item nearly 80 percent of the time. Carrying costs of inventory went down ($$$$) because they could reduce quantities on hand.
- Other items they had not considered: In addition to the historical information they now have, they added bin locations, delivery time information from their vendors, and order quantity discounts ($$$$) from vendors into the new system. This lets them better manage replenishment and keeps down carrying costs.

In the end, Fran and the team actually considered themselves thankful that the economic downturn had forced them to do a detailed examination of their inventory processes. They discovered that tying up so much cash in inventory was costly, and more surprisingly that it did not always translate to happy customers. The win for everyone was multiple ways to add to the Fran Distribution bottom line and improve their customer service.
So there's just one last question: Are your clients in touch with their inventory and money ($$$$)?

$$$$ = opportunity for cost savings