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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. 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 and up-to-date knowledge when talking to customers to set expectations and strengthen the bond with the customer.

What Do We Know?

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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 of measure for each item in their system, there's no longer any need for Fran reps to do conversions in their head between the buying, stocking and selling units of measure. Now the rep can easily sell in the unit the customer wants (each, by dozen or by box) while at the same time the system is accurately relieving inventory for the quantity sold regardless of the unit of measure.

– **Re-Order Points?** It used to take lots of man hours to determine 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

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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 fine tuning to their processes:

- Fran now tracks historical purchase information on their suppliers including items purchased and total money spent. They have used this information to negotiate a better rate with a supplier who was getting a lot of their business.
- They have a historic view of the last cost and lead time 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 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 to 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 customer 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

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