

BETTER INVENTORY WITH TECHNOLOGY

BY GREG WHITE AND DAN CRADDOCK

Level the playing field

Use Web-based forecasting and replenishment solutions to compete with the big guys.



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IT STARTS WITH recognizing the pain: In an industry with slow-moving items, long lead times, and contracting margins, larger distributors recognized long ago that inventory is a big factor impacted by these dynamics. The pain is felt through swollen inventories and poor fill rates—hurting a large operation to the tune of inventory levels that are approximately 30% higher than necessary, and multiple service points missed.

For small and mid-sized companies, the relative numbers may be lower, but the pain is the same. Distributors normally put their attention, resources, and passion into selling, but when the pain from missed profit becomes too great, distributors large and small begin to see more clearly the opportunity that advanced inventory management offers.

Many companies realize almost too late that selling generates revenue, but buying right generates profit. Fortunately, buying right is not an art; it's a science. It's about having a buying strategy.

Years ago, companies like Noland, Wesco, and MSC began to recognize that their buying methods were filled

with costly pitfalls. They used tactics that seemed to make sense, but were actually leading them to inventory levels more than 30% too high.

For example, common sense tells most buyers to carry more safety stock on their "A" items. In reality, however, these popular items are so active that they sell in a very consistent pattern. The pattern is so reliable that these items typically need the fewest days of safety stock, even to maintain an ideal service goal.

On the other hand, "C" and "D" items are labeled in such a way that distributors often choose to keep a lower safety stock on them. However, these items are pulled in such an inconsistent manner that they require a much larger number of days of safety stock, even to maintain an in-stock level of around 90%. Fortunately, though few recognize it, even 30 days supply of these items is often very few, possibly only one or two units.

The large players have known the secret of advanced inventory management for years. With their advanced solutions, they have used inventory as a strategic weapon in their business arsenal. So why haven't smaller distributors been able to benefit? The answer is that until now, the technology to manage inventory has been expensive.

Additionally, inventory management for distribution is a highly specialized field. Any inventory science requires extensive knowledge, but critical to success is experience with the dynamics of the wholesale industry. Up until the past three to five years, only the largest software companies have been

able to offer this sort of expertise. Today though, experts have flowed into the field with knowledge and experience in our marketplace, along with technological advances that have helped to level the playing field.

The spread of the required expertise, along with the introduction of more cost-effective development tools and delivery mechanisms, means that more software providers offer solutions specifically to smaller distributors. Fortunately, some of these advanced systems not only eliminate pitfalls, they also address industry-specific needs and guide the buyer in developing an inventory strategy.

Of course any inventory solution begins with forecasting, but the best delve deeper into helping buyers make profitable decisions. The most advanced solutions can tackle inventory issues for every single item in a location—like projecting lead time forecasts, calculating economic order cycles, determining proper safety stocks, and even managing promotional and forward buying. But a truly capable inventory management toolkit can help buyers manage inventory as a strategic investment, rather than a necessary evil.

For business owners, treating inventory as an investment means that a buying staff can help to meet the company's strategic goals. Companies can and have reduced their inventory 30% to 50% and increased service to their customers. This means a sustainable increase in sales of 10% to 15%, along with an increase in cash flow. Many times a change like this starts a company on a significant growth path, and with internal funding to support it. Companies use these solutions to get in stock, out of the bank, and deep into the black with remarkable regularity.

Today's proven, robust, and yet affordable solutions allow distributors the ability to purchase software to meet their needs. The advanced development methods of these companies allow software to be deployed more affordably, or even accessed directly over the Internet. Hosted software applications give smaller distributors the benefit of lower out-of-pocket costs, plus a min-

imum of headaches in implementation and support, in a pay-as-you-go environment. Hosted solutions can be implemented in just a few hours in some cases, and the best require only an Internet connection for communication and access. Data is encrypted and exchanged via a secured connection, and password-protected Web sites keep business data safe from prying eyes yet easily available to anyone with authorized access—a solution ideal for a small business with limited IT resources.

To help ensure success, look for software companies with expertise not only in forecasting, but with a broader knowledge of advanced inventory management. Many software companies have software that creates forecasts, but few provide features to operate well in the specialized, stress-packed world of the buyer. A few companies have extensive expertise in electrical distribution and its buying processes, along with experience in getting the best performance out of the buyers. Such a business partner can help put a company in the strongest position to take advantage of the benefits of the technology. Buyers make dozens of mission-critical decisions in the course of a day, and the right solution can help them make these decisions quickly and effectively.

Look to recent history as a guide. Web-based solutions have been used for many years to manage mission-critical functions. Companies have long managed their largest assets through online accounting solutions, and their most valuable asset—their customers—through Web-based sales force management; so the stage has been set to manage a distributor's largest physical asset, its inventory, in the same way. Advanced, yet cost-effective, Web-based forecasting and replenishment solutions help take away the unfair advantage that big distributors have long had. ■■■

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TECHNO NOTES

► **O-Z/Gedney's** Electronic Drilling

Template (EDT) program, available at www.o-zgedney.com, allows users to instantly develop junction box layouts and drawings to exact configurations, sizes and materials, including conduit entries. EDT assists by offering maximum conduit sizes, and spacing between the holes and the edge of the box. Once completed, layouts can be printed; a printable bill of material is automatically generated with catalog numbers, quantities, and list pricing.

► **Intermatic** offers a CD-Rom that features a selection guide program to help users specify the correct surge protection device or TVSS for specific applications. The free CD can be obtained by calling 815-675-7068.

► **Fire-Lite Alarms** (www.firelite.com) offers Lite-Specs 2.0 software, a free program that builds custom fire alarm specifications for Fire-Lite fire systems.

► **IDEA** (www.idea-inc.org) has nailed down Sept. 26-28, in Long Beach, Calif., as the dates and location for this year's E2E event.

► **Activant Solutions'** user group meeting, Summit 2006, is scheduled for March 21-24 in Las Vegas.

► **Infor's** 2006 global user conference, Inforum 2006, will be held April 9-12 in Las Vegas.

► This spring, **Intuit** will roll out QuickBooks Easy Estimate, a product aimed at subcontractors, general contractors, and others.