

## The Wholesale Distribution Inventory Paradox

By Bill Marr, Senior Management Consultant, F.H. Black & Company

Effective inventory management conquers the age-old paradox...meeting or exceeding customer expectation for product availability and on-time delivery while maximizing overall return on inventory investment.

Today, an inventory analysis of a typical wholesale distributor (WD) would reveal a disconnect. It's not uncommon for a WD to have *40% or more of its inventory dollars invested in inventory generating less than 1% of its gross margin dollars!*

One of our clients, a highly successful industrial WD, had over \$150,000 in inventory sitting on the shelf in items contributing a mere \$3,100 to gross margin. Working with this client to first identify the problem, and then design a plan to reduce the inventory inequity, significant gains were made. After six months and a focused effort, the inventory value of the items making up the last \$3,000 in gross margin was down to \$101,000, a 'dead' inventory reduction of 33%. The client's total overall inventory investment was down over 21% over the same period. While the client still has work to do to achieve optimal results, improved cash flow and increased inventory turns have been realized.

In this age of computer sophistication, why is it so many WDs experience this incredible, profit-draining imbalance?

Here are some leading causes:

- Lack of an 'Approved Stock List' by warehouse
- Haphazard addition of new SKUs...many that are *Dead on Arrival (DOA!)*
- Inaccurate forecasting of future demand
- Inadequate reordering parameters
- Lack of a Dead Stock management plan

Winning the inventory management game is within the grasp of any WD...just don't expect overnight results. Bringing inventory into balance requires concerted effort and discipline. You can start by:

- creating and publishing an 'Approved Stock List' by warehouse
- replacing 'SWAG' buying (scientific wild ass guessing) with frequently-updated 'best practice' calculations of future demand and reordering parameters.
- reducing excess and dead stock inventory levels and prevent their recurrence.

Start today to effectively manage your company's largest asset. Bringing the 40%:1% into balance has never been more critical!

**Bill Marr** is a senior management consultant with F.H. Black & Company with an extensive background in wholesale distribution. He has over 25 years experience in business, including wholesale distribution, manufacturing, property management, and marketing.