6 Simple Steps for Reducing Transfers White Paper For Distributors

"I need to make a quick point of clarification. Not all transfers are bad."
-Jason Bader

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For the Distribution Industry

According to most distribution managers, transfer should be a four letter word. No practice gives us more fits than moving product around our locations. Those of you with multiple locations know exactly what I am talking about. At one time my business had 9 locations over 4 states. We were transferring fools. I remember when the company was just a couple of locations. Even with fewer branches, we still had daily inventory transfers. What was even more frustrating was the fact that some of this inventory seemed to have a round trip ticket. It never seemed to land in the hands of a customer. I wish we had little stickers made up with the names of each location. Several items would have been plastered in them like the luggage of a world traveler.

I need to make a quick point of clarification. Not all transfers are bad. Inventory transfers as part of a planned branch replenishment program are normal. In fact, this is the preferred method when a location is just starting out or is in close proximity to a hub facility. Typically, these are not the culprits when we are talking about transfers gone rampant. The offending practice generally comes as a result of a customer service crisis – commonly referred to as a "stock out".

To add insult to injury, who covers the cost of this inventory tour? The company does. We see it in our freight expenses, material handling labor and our customer service personnel. Over the course of this article, I am going to touch on several areas where you can start looking for solutions.

Analyze your product movement

Those of you who have read previous articles know that I am a strong proponent of inventory reporting. I believe that your distribution software reports will be your greatest ally in this fight. When I want to know what items are selling in a specific branch, I turn my attention to the HITS report. For those of you who are unfamiliar with this report, it is like an inventory popularity contest. The report measures the number of times that an item appears on a sales order in a 12 month period. It doesn't care about the quantity sold. It just measures the number of transactions.

Most expedited transfers occur because we have failed to match our stocking habits to our customer's buying habits. Inventory management is all about having something at the right place at the right time. Too many of us rely on gut feel and historical knowledge to make our stocking decisions. Items rise and fall in popularity. What was hot last year may have been superseded by the next great thing this year. Our customers can be a fickle lot.

In order to stay ahead of this product popularity shift, I suggest that you run a HITS report for each location on a quarterly basis. Make sure that you are adequately stocking the most popular items with that location's customer base. I want to make a quick point here. Some companies tend to look at the hits data from a global company perspective. As I learned, very painfully I might add, what sells in Portland doesn't necessarily sell in Denver. Run the report for each location separately.

Through your analysis, make sure that you are ridding the location of unwanted inventory. Move the low hit items out of the location. Reduce the surpluses in the mid range items. Bump up your investment in the top 10%, ranked by hits. The easiest was to make this a permanent change is to adjust the safety stock settings. Higher safety for popular items; conversely, minimal safety on less popular items. This should help reduce the number of stock outs.

Balance the Inventory

Inventory balancing refers to the process of taking slow or surplus inventory out one location and transferring it to a location that has adequate need for the stock. It works on the theory that one man's garbage is another man's gold. Most of us actually do this. Remember all those daily transfers I spoke about earlier? This is nothing more than inventory balancing using the most expensive method possible.

As an alternative, follow up your HITS analysis with some large planned transfers of product. Take the time to redistribute the inventory into the right locations. Make sure that you are making the proper changes to the item control settings in your software. If you want to discontinue a product in a location, make sure that the system knows it. Otherwise, you will be doing this all over again next quarter. Regular inventory balancing will reduce the number of emergency transfers across your whole company.

Train Your Customer Service People to Ask Questions

Imagine this scenario, a customer comes into your Portland location and asks for particular item. The customer service person checks inventory and sees that we are currently out. Because we have invested in a sophisticated distribution software package, our customer service person can see that we have them in our Seattle location. What happens next can ultimately cost you a lot of money. Ask yourselves, what would happen in my company? In my experience, the next words are something like, "No problem, I can have them here tomorrow."

Before making the transfer investment, we need to train our people to ask a few questions first. When does the customer actually need the product? Our normal replenishment order may be here in a couple of days. Do we have an acceptable substitute in stock? Can they take a partial shipment if we would be wiping out the Seattle inventory? Is the customer willing to pay the freight charge to get it down here? Can I have it shipped directly to your office?

We should strive to handle a product as little as possible. Now this practice will not reduce your inter-branch transfer activity, but it will take some of the cost out of the process. Why do we insist on transferring from one branch to another, let the item sit on the dock for a day, then send it to the intended customer? Wouldn't it make more sense to only apply labor dollars to the shipping side of this equation? Some of you are thinking "Do people really do that?" Trust me; I watched it happen for years.

We are already paying a shipping cost to transfer the product, why not let the item go directly into the hands of the customer. If the words "sales credit" enters any part of your justification here, may I present a pistol to shoot off your other big toe. Fix this problem. Most modern distribution software will allow sales credit to be applied wherever you see fit. Please don't spend additional operating dollars so that some branch gets credit for the sale.

Rank Your Customers

Finally, before making the decision to spend our money to transfer this product, we need to ask ourselves, "Is this customer really worth the investment?" This is a touchy subject for most distributors. We have taught our people to treat every customer the same, but we ultimately know that they have different importance to the company. In order to help your customer service people make good transfer decisions, we need to give them profitability ranking information.

In previous articles, I discussed a method to rank customers based on their contribution to net profit. If you would like to get more detail about the method, contact me and I will discuss it in depth. The crux of the exercise is to establish different service levels based on whether a customer contributes to, or detracts from, your net profit.

Once the ranking has been established, you set up certain guidelines around the transferring of products. With your best customers, you wouldn't think twice about spending the money. With your worst, you wouldn't even consider the transfer. Knowing who you are transferring for will help you reduce the number of items moving around the system.

Use a Central Authority

Many of the companies I have worked with give transfer authority to everyone. It seems like anyone is authorized to spend company money in the name of customer service. This practice leads to a transfer free for all. Invariably, this leads to inventory surpluses all around the system.

In the scenario I mentioned above, let's assume that we wipe out the Seattle inventory. One of their best customers calls in and wants some of the product. An apologetic sales person says, "Sorry, you just missed them. We had to ship them down to Portland." How happy is this customer? They will probably say something like, "I don't care what happens down in Portland. When you opened this location, you said you would have what I needed when I needed it. I'm going somewhere else." Do you think this location will ever run out of this item again? I see a large transfer in their future.

A central authority can help smooth out these issues. They can analyze why the original location was out of inventory and make the necessary system adjustments. This will prevent future problems, but more importantly it will prevent knee jerk reactions. A central buying authority may know that this item can be sourced locally for a reasonable cost. Using a central gatekeeper of inventory removes the emotional decision making.

Examine the Current Transfer Routes

I recently worked with a large HVAC supplier with several locations. One of the challenges we looked at was the space constraints in his hub location. He was having a difficult time staging the transfer orders for each location. We worked out a scheme where he was able to utilize the trailers ahead of the transfer run for storage. This was looking great and we could have just stopped there. Feeling rather proud of myself for offering up a workable scheme, I said, "Do we really need to have a dedicated trailer for each location?" I should have kept my mouth shut. Over the next several hours, we analyzed the transfers, the sales volume, and the current routes for each location. Ultimately, we figured out how to combine a couple of the routes so that they could better utilize the trucks and drivers. It all worked out well, but sometimes you need to quit while you are ahead.

All kidding aside, this was a worthwhile exercise for this distributor. Take a look at the current volumes for your smaller locations. Do weekly transfers make sense? Should we transfer a larger shipment every 10 days instead? With reduced sales volume in the current economic climate, we may be better served to replenish less frequently.

Take a hard look at the use of your own fleet for transferring product. Common carriers may be a more economic way to move inventory around. They may be more willing to negotiate LTL rates these days. It's worth the effort. I never won the lottery on the days I didn't buy a ticket.

I used to envy my friends who had single location operations. Bigger is not always better. When you become a multi-branch company, the word transfer will come up in every operations meeting you hold in the future. Done well, branch replenishment can prevent large surpluses. It is still the best way to feed a new location. Look at the various areas I have outlined and see if you can integrate them into your organization. If you get stuck, just send me a note. My job is to help you get past these barriers to profitability.

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