



# Discipline pays

Inventory control software and a more disciplined approach to maintaining consistent stocking levels help this specialty tools distributor lower its inventory investment.

by Richard Vurva

Jack Schmidt (top) and James Soss of Falson Supply are determined to keep the company's inventory costs down.

Mornings are hectic at Falson Supply. The phone and fax machines start buzzing with activity shortly after 6 a.m., as mechanical and plumbing contractors begin placing orders for supplies they'll need that day. By 8 a.m., while most Chicago area commuters are still en route to work, this Franklin Park, Ill., distributor has already begun filling most of its daily orders. The vast majority of orders received in the morning are on trucks by afternoon.

"When our customers need something, they need it now. If we don't have it in stock, they'll go someplace else," says Jack Schmidt, who handles the company's purchasing activities.

In this fast-paced environment, it's easy to see how inventory levels can quickly get out of control. Because salespeople never want to run out of a product that a valued customer might need, the company begins stocking up on fast-moving items. Over time, if subtle changes in customer ordering patterns go undetected, a company can find itself holding excess inventory and dead stock.

The challenge is to bring inventory levels in line with customer demand without negatively affecting service levels. Falson Supply met the challenge over the past several months by using inventory control software and adopting a more disciplined approach to maintaining appropriate stocking levels.

## Dead inventory won't make you rich

Falson began improving its inventory levels after installing new distribution inventory control software. Usage and dead inventory reports generated by the Business Edge software from Computer Insights of nearby Bloomingdale, Ill., demonstrated that the company needed to take a serious look at what it held in stock.

In some cases, Falson stocked more products than it needed. For instance, it had enough fastening anchors and certain power tool accessories to last a year or more. In other cases, if a salesman received an unusually large order and forgot to mention it to Schmidt before he placed the next order, the company might run out of that product.

To get rid of dead inventory — items that haven't sold in a year or more — the company held special promotions and persuaded vendors to take products back. Most vendors agreed, as long as Falson placed an order of comparable or greater value for products that were moving.

It took about six months to eliminate the dead inventory, and keeping slow-moving inventory to a minimum is an ongoing process. Since installing the system, Falson reduced inventory levels by about 30 percent. It maintains nearly 90,000 SKUs in the system but stocks only about 25,000. Despite having less inventory, salespeople are happy because customer service levels improved.

"Once they started realizing that the system not only pointed out products that we were overstocking but products that we weren't stocking enough of, they realized our inventory is better and our service is better," says James Soss, who doubles as a salesman and computer system administrator.

Customers are more satisfied with fill rates now than in the past. Falson fills more complete orders and places fewer back orders with suppliers.

"The computer is an excellent guideline. It suggested a lot of products that we should put on the shelf that we weren't carrying before," Soss says.

## Establishing guidelines

Today, Schmidt regularly runs usage reports and reorder point reports that suggest when to place orders so stocking levels won't fall below a pre-determined minimum. His goal is to maintain a three-month supply of most items.

If Falson sells 100 saw blades a month, Schmidt tries to keep 300 in stock. To maintain proper inventory levels, the system establishes a minimum order point of 100 and a maximum of 300.

If the supply falls to 99 saw blades, the system triggers a report that suggests it's time to order 200 more. Schmidt can override the suggestion and order more if the company plans a major promotion, for example, or order less if he knows the manufacturer is about to discontinue the product.

"We're finding out that we're not running out of products as often as we used to because we're ordering at the right time," says Soss. "By the time we run out, our shipment is already in."

Keeping tabs on customer demand data helps Schmidt know when to take advantage of manufacturer promotions. For example, to earn a rebate from one manufacturer at the end of 2002, Schmidt placed a big order for power tools. Although it might take up to six months to sell the tools, a rebate of several thousand dollars plus additional discounts he earned justified placing the order.

"But no matter how good the price is, if we don't feel we can get rid of that product in three to six months, it doesn't justify taking advantage of a promotion," Schmidt says.

Beside the obvious benefits of reducing inventory carrying costs and improving cash flow, better inventory management reduced shipping costs.

"We don't need orders expedited as often as we used to," Soss says. "It also helps us put together freight orders. Now, Jack can run the report and the system will tell us that in addition to this item, we're also low on these three other items from this supplier. He can put together a big enough order to meet a vendor's

prepaid freight minimum."

## Buy more, less often

Another way to reduce inventory investment is to buy smaller quantities. For example, in the past when Falson needed to replenish a fast-moving product like a 1/2-inch cordless drill, Schmidt or Soss might make an educated guess and order 20 drills. Today, knowing the company sells an average of four of the drills per month, Falson strives to keep 12 in stock, enough to last three months.

"We didn't reduce the number of SKUs we carry, but on a particular SKU we might carry eight instead of 12 and still maintain a comfortable supply to satisfy the customer," says Schmidt.

Tracking usage patterns has enabled Falson to approach some customers about setting up blanket purchase orders. For example, say a contractor bought 300 18-volt batteries for Milwaukee cordless drills last year. Falson can approach the customer and suggest setting up a blanket purchase order for all 300 batteries, and agree to ship 25 batteries every month.

Knowing he can guarantee an order for 300 batteries, Schmidt can negotiate a better discount from Milwaukee and set up a shipping schedule.

"Our whole inventory process has changed dramatically," says Soss. "We buy better. Our inventory levels have gone down, but our service levels have gone up. We have the right products instead of a lot of the wrong products." ©



# The BUSINESS EDGE

The Best Software For Tracking Your Hardware



**Computer Insights Inc.**

108 South Third Street  
Bloomington, IL 60108

(800) 539-1233

[www.ci-inc.com](http://www.ci-inc.com)