

## Wholesalers adopt new ways to tackle perennial inventory challenges

For small and midsize wholesale distributors, holding on to excess inventory for extended periods of time is a delicate balancing act. Buy too much of a particular item that cannot be sold quickly, and the wholesaler eats the cost of holding on to unwanted inventory, and takes up valuable and limited warehouse space. But fail to meet customer needs with readily available products and customer relations suffer. What's more, fluctuations in commodities markets have increased these risks.

"Small wholesalers today face two basic challenges," says Adam Fein, president of the wholesale distribution analysis firm Pembroke Consulting. "The perennial challenge is to balance stock levels and service levels. The newer problem has been the very rapid growth in commodity prices and in the products that are made from these commodities."

According to Fein, these commodities include anything derived from petroleum, such as oil-based products, plastics and chemicals. The price of copper and other metals has also skyrocketed, he says, which has in turn substantially raised the price of manufactured products such as pipes, valves and fittings.

"This creates a challenge for wholesalers because they need to store this inventory—and yet they're taking what is a historically unprecedented amount of price risk," Fein notes, "So managing inventory is even more important today than it ever has been."

While changes in markets and supply chains present new challenges to small and midsize wholesale distributors, they also bring opportunities. There are numerous ways to compete in the new economy—and still have the right inventory available at the right time.

### **Demand-driven inventory processes reduce risk**

Distribution models based on actual customer need can play a big part in keeping inventory levels low. A vendor-managed inventory (VMI) model can help small and midsize wholesales substantially reduce the likelihood of holding inventory for too long. VMI can work in one of two ways: between a manufacturer and a distributor, or between a distributor and a customer, such as a retailing operation.

In vendor-managed inventory models, suppliers see how much product is actually needed by distributors and commercial customers, instead of basing inventory entirely upon orders. As a result, both parties—the customer and the supplier—can hold lower levels of inventory and have higher service levels at the same time.

Driving adoption of VMI systems is, according to Fein, "the use of warehouse management systems by distributors, a willingness of customers to share information with wholesalers and the use of automated product identification technologies—those three factors together are enabling vendor-managed inventory to occur with distributors of all sizes," he says.

Automated warehouse management systems allow wholesalers to know exactly which products are in stock and to manage inventory very efficiently. "A warehouse management system enables much more accurate decisions about inventory levels and product storage, giving distributors real-time stock information, eliminating manual inventory counting and virtually eliminating the problem of lost inventory," Fein says.

These systems can ensure that wholesale distributors aren't left holding the inventory bag. At Burlington Foreign Car Parts in Vermont, automated replenishment directed by servers makes it possible for the company to stock the right amount of items in six separate warehouses.

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Collaboration makes VMI processes effective, and increasingly customers are opening to the idea of sharing information with their wholesalers. In allowing their wholesaler distributor suppliers to see their actual usage at a plant, at a retail store or at another location, customers afford the wholesaler a view of both supply and demand, critical to improving inventory management.

### Information keeps products moving

Beyond automated warehouse systems and automated product identification, other technologies are also critical to helping wholesale distributors meet new challenges. Not surprisingly, supply chain management systems (SCM) that handle logistics remain as important as ever. These systems can help supply customers with products faster, even though expanded global sourcing can mean longer lead times.

Wholesale distributors should not forget customer relationship management (CRM) applications, which typically have a collection of tools for contact management, information sharing, product configuration. Fein expects that the benefits of these applications will become increasingly important to small and mid-sized wholesale distributors: “Right now, only about one-third of all distributors actually are using CRM systems. So I expect the use of those solutions to grow dramatically as the sales force becomes more highly automated.”

In terms of improving productivity, Fein says, “One [practice] that is moving from the leading edge to mainstream is the use of wireless networks and wireless technologies. The relatively low cost is making distributors adopt wireless technologies; it also allows them to implement warehouse technology systems without having to reconfigure and reconstruct their warehouse.”

It's not just within the warehouse where distributors need information management. “Many distributors are realizing that they can connect and link to their customers more effectively if their field sales force has more timely and more accurate information, both about what the distributor has in stock as well as what the customers information is. I see many distributors automating their sales force by providing them with small, local devices that can be connected at any time, anywhere.”

### Private-label opportunities leverage new distribution capabilities

The ability to see supply chain demand through inventory management and SCM systems is leading many distributors to new areas of opportunity. The private-label phenomenon—where wholesale distributors sell their own products instead of reselling goods from other suppliers—is emblematic of these developments. A private-label product typically competes with name-brand items, such as goods found in drug stores and supermarkets, and is often sold as a “house brand” or generic item.

The surge in the popularity of private-label products represents a change in wholesale distribution. In his recent research study *Facing the Forces of Change: Lead the Way in the Supply Chain*, Fein discovered that roughly four out of ten wholesale distributors today currently sell their own private-label products. In the future, Fein says, more than half of all distributors expect to sell private-label products because the opportunity is so great. “Since private-label products are less expensive to purchase and source, distributors can earn higher margins, even when their products are priced at a discount to national brand products,” he says.

However, these opportunities are often accompanied by greater supply chain length and complexity, which increases the need for insights into logistics. Fein says that distributors need to hold more inventory when they buy private-label products. Many suppliers of materials needed for these items are located overseas, and geographic distance can make inventory planning more difficult than in the past.

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### Innovation sets the stage for the future

Technological innovation, Fein says, will continue to drive innovation and competitiveness for wholesale distributors. “Distributors who are more highly automated are best positioned to tackle most of the challenges that are coming down the pike,” he explains.

“Distributors must fully embrace the Internet in their business operations because the Internet is a normal part of everyday life in the United States,” Fein continues. “One of the things we found consistently in our research is that an increasing number of customers want to interact with their distributors online. Right now, more than one-third of customers expect to communicate with their distribution sales person—whether an inside sales rep or an outside sales rep—via e-mail.”

For this reason, Fein recommends investigating numerous communications possibilities. “For example, instant messaging allows direct contact with other Internet users regardless of where they’re located,” he says. “Companies in the building materials industry in particular are taking advantage of online work spaces, where multiple companies and multiple people can participate and share information and documents.”

Other IT advances Fein sees gaining traction among distributors are live chat features and click-to-call technologies. These products allow customers to get needed answers immediately from their wholesale distributor. This improves service levels and ensures that the flow of goods leaving the warehouse represents a steady, reliable stream of revenue.

While not every one of these solutions may be appropriate for every wholesaler, Fein says that the potential benefits of new technologies should be investigated. “One of the key conclusions of my research study *Facing the Forces of Change, Lead the Way in the Supply Chain* is that higher-profit, faster-growth distributors shared a common characteristic: these distributors invested in innovation,” he says. “Distributors that will be successful in the future recognize that it is the information and services wrapped around their product that are the source of their real value in the supply chain.”