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## How to Avoid Excess Inventory

In today's economy many businesses are experiencing excess inventory challenges in their warehouses. One of the leading reasons for excess inventory is not "buying smart." Businesses with outdated software rely on input from their sales force to project what will sell next season. Rather than using a sophisticated computer forecasting system, often the sales force's projections are based on "gut feelings" instead of accurate data. As a result of this, the Purchasing Department has to decide what products should be purchased sometimes based on inaccurate information. This often results in items being out of stock or in excess inventory.

### **Excess inventory creates the following problems:**

Unsold inventory consumes unnecessary warehouse space that creates difficulty when new inventory is received. Often having excess inventory will result in the need to rent additional space at public warehouses, or buy or lease another warehouse.

1. Inventory cost is increased because money is borrowed to finance it until it's sold, and in today's market banks are often reluctant to lend the money. Some of the inventory will never be sold and will end up being liquidated and sold to the conciliators at a loss.

Recently, I was asked by a CPA firm to visit one of their clients who needed help with his computer system. The company is a successful \$30 million family-owned business. When I met the company President, he said, "We are experiencing business disruptions because our current computer system is outdated and I am reluctant to do anything about it because: 1) buying a new computer system is expensive, and 2) I don't know if I can afford it."



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My response to his analogy was, “in today’s unpredictable business reality having accurate information is a must.” Rather than discussing new computer system features and functions, I suggested we should discuss his most pressing business issues.

**Business issues the company had:**

1. **Excess Inventory:** When I asked the president and his CPA how accurate their inventory count was in the warehouse, he responded: “we have excess inventory but it’s okay; we are not in better or worse shape than any other business we know.”

My response was that our clients who are using a modern integrated computer system achieve 99% inventory accuracy. When I asked the CPA what kind of savings they would achieve if they could lower their inventory level by 10%, resulting from a newly integrated computer system, his answer was: *“lowering the inventory by 10% would result in \$1 million dollar savings.”*

2. **“Paper Bound” Daily Business Flow:** Fulfilling daily orders and paying vendors for received inventory results in excess manual efforts. The President indicated that they are a “paper bound” company and the users always have to go to the computer department to get anything done. The computer department consists of 5 people who support 50 users company-wide.

I explained to the President and his CPA that an efficient new computer system would require only one server, and an installation of 80+ users needs only 2 computer people. Their response was, “by lowering our computer staff by 3 people we would *save \$200,000 per year in salaries.*”

3. **Inaccurate Purchasing:** Because the users are dependent on the computer department personnel to produce and print reports, information is not readily available. As a result, the purchasing department



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must buy new inventory based on the salespersons' projections of what they feel will sell within the next season or year.

When I heard this, I explained to the President and his CPA that an integrated forecasting module could project what to buy after taking into account the open orders, purchase orders, on-hand inventory levels and product maturity. Based on this accumulated information, the system would recommend what should be purchased and from whom. The users could also choose to override the computer recommendations.

The next step I recommended was hiring a warehouse logistics consultant to evaluate the warehouse layout and the inventory picking procedure. When the warehouse logistics consultant finished his study, he issued a report indicating that the inventory on the racks is not stored for optimum picking and bottlenecks occur when new inventory is received in the warehouse.

### **Researching new computer software:**

Looking for new computer software can be challenging. Any software can look impressive at the demo. The question that should be asked is: how would it work for my company in the real world? When I speak with CEO's and CFO's about buying new software, I always recommend that the department heads should create a "shopping list" that describes the most crucial business issues they encounter in their daily affairs. Having this "shopping list" will result in a "workshop" type demo rather than viewing a "slide show" demo given by professional sales people who were trained for it.

One of the major issues businesses face when they buy new software is how flexible it is and how easily it can be tailored to the users' abilities. Choosing overly sophisticated software with no flexibility can result in the users having a very high learning curve before they master it and will increase costs and business disruptions.



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One of our new clients hired us because they accumulated excess inventory they will never be able to sell in the warehouse. Because of the excess inventory, new inventory received at the warehouse needed to be stored in trailers that were stationed outside the building. This client eventually ended up buying a new, larger warehouse. When I asked the President why he had so much excess inventory, he attributed it to his previous computer system which was twenty years old and said, “Not having an adequate forecasting system, our salespeople made mistakes and were unable to determine product maturity and market demands regarding what would sell, resulting in useless inventory.”

Another company CEO responsible for many nationwide locations told me, “Two years ago we bought new computer software. The demo ‘looked great’ but we did not take into account our user ability to learn this kind of sophisticated software. This resulted in the warehouse not being fully automated since the warehouse staff can’t take advantage of the sophisticated warehouse module. Looking back, we should have checked the software for ease of use. The software sophistication turned out to be ‘over kill’ for us. At the demo the ‘paperless warehouse’ concept was emphasized and sounded very good in theory. In reality, in order for us to take advantage of it, we needed to replace all of our pickers and hire more sophisticated staff at a much higher rate than we are paying now.” Warehouse software should have the flexibility to go in multiple steps of only scanning received and shipped inventory before achieving the “paperless” stage.

When looking for a new computer system, the “shopping list” of business issues can be a very powerful tool. Besides looking at the features and functions, the new software should offer ease of use. In addition, the number of computer people required to run the system should be considered. Systems that require multiple servers will result in a large number of computer staff that will increase the cost of the operation.

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