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The Power of Purchasing Information

Buy smart and avoid excess inventory in your warehouse

By Dan Kaplan

Many companies are surprised when they find excess inventory of fast-moving items during a physical inventory. After getting over the initial surprise, they shrug their shoulders and say, "These are fast-moving items, and they should sell." What they fail to realize is that even though fast-moving items will sell, they carry unnecessary storage costs that affect their bottom-line profit.

Here are some issues resulting from having the wrong purchasing information:

- Fast-moving items result in excess inventory.
- Buying based on "gut feeling" rather than accurate computer information.
- Buying "out of control."

### Even Fast-moving Items Can Result in Excess Inventory

In speaking with a mid-sized distribution company CEO about this subject, he told me that prior to the implementation of a new computer system, his company always found excess inventory of the most successful-selling items when the physical inventory was taken. When asked why this happened he said, "Before we installed our new computer system, we did not have accurate information about our inventory level. Worrying that we would run out of stock, we ordered additional quantities of the fast-moving items, not wanting to be caught short and knowing they would sell. At physical inventory time, we were surprised to find the excess inventory of the fast-moving items."

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After implementing a new computer system, the company achieved excellent control across the board, resulting in accurate inventory control. Using a comprehensive forecasting module helped them reduce their inventory to just-in-time levels.

Today, rather than being afraid of running out of stock and buying additional inventory every time the company receives large new orders, they only buy what they need based on the computer information, and ship the items when they arrive at the warehouse dock. They still carry a "comfort zone" inventory level in case shipments get delayed, but their inventory level is substantially lower compared to what they carried in the past. This has resulted in improved cash flow and bottom-line profit.

### **Don't Go with Your "Gut Feeling"**

Not having a modern computer system with comprehensive inventory and forecasting systems creates the ripple effect of unnecessary expenses. Being creatures of habit, people remember their last success. When a company receives a very large order, the result is the expectation that the client will repeat the same order again, so the inventory is therefore replenished.

However, this is a poor way to operate. The client's economic situation might change, and they might not repeat the past buying trend. An additional factor people fail to realize is that when items reach their maturity, the sales will decline.

With a comprehensive forecasting system, new inventory will be replenished based on the following factors:

- Current inventory level and its low order point.
- Item maturity based on sales history.
- Outstanding open orders.
- Vendors' delivery history.

### **Buying "Out of Control"**

Recently, I visited a company that is a division of an expensive knife manufacturer overseas. Having an outdated computer system, the Purchasing department did not have accurate information about what was in the warehouse and therefore purchased additional knife holders that would last them for a few years. When we walked through the warehouse, I asked the Computer Manager how they could live with this situation. His response was: "I have been here one year and have made drastic changes. If you think we have a mess now, you should have seen the warehouse before I came on board."

When I asked him if Management was considering upgrading the computer system, his response was: "I don't know. We spent a lot of money on a computer system that doesn't work properly, and upper Management might not be willing to cut their losses and invest in a new system."

Not having good inventory control and buying based on "gut feeling" rather than accurate computer information can result in having excess inventory that might not be sold.

Companies that say, "For many years we managed to control our inventory the way we do it now," fail to

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realize that what worked in the past will not work in the rapid changes of today's business environment. Selling on the Web has changed the face of the business world. A very successful e-commerce site and a strong sales team is a blessing that can be a "double-edged sword." Not having the right computer infrastructure can result in the wrong buying decisions that lead to excess inventory in the warehouse.

**About the Author:** *Since 1980, Dan Kaplan has worked with corporate executives to improve purchasing, increase warehouse and distribution efficiencies, and implement software solutions that result in substantial savings and productivity improvements. [www.smcddata.com](http://www.smcddata.com).*

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