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The "Domino Affect" of Business Disruptions Companies Face

by

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Many companies are reluctant to replace their old computer software feeling it's an unnecessary expense. What they fail to realize is the fact that this kind of thinking can result in a chain reaction of business disruption resulting in lost revenues, excess inventory in the warehouse and increased operating costs.

Business Disruption Resulting from Outdated Software:

- Not having accurate information when customers call to inquire about their orders or when placing new orders.
- Incorrect shipments result in returned merchandise and penalties imposed by chain stores for inaccurate shipments.
- Returned inventory creates a chain reaction of excess manual efforts resulting in additional labor costs and lost revenues.

Excess Inventory in the Warehouse Resulting from Outdated Software:

- Misplaced inventory in the warehouse becomes excess inventory collecting dust on the shelves, while new inventory is being ordered.
- When the physical inventory takes place in the warehouse, misplaced inventory is found resulting in excess inventory. While the misplaced inventory was collecting dust, new inventory was purchased creating unnecessary expenses.
- Not having control of the inventory in the warehouse can result in incorrect purchasing decisions and excess inventory.

Business Disruption Resulting from Outdated Software:

Very often when customers call to place an order they are told "my computer shows that we have it in stock, but we manually have to check if it's in stock." Not being able to trust the computer accuracy results in increased manual efforts and frequent bottlenecks. If the inventory to be shipped is not found, the computer records have to be corrected while in reality the inventory might have been misplaced. This misplaced inventory will collect dust until the next physical inventory takes place.

Not having accurate information when a customer calls regarding order status results in Customer Service personnel having to go to the drawer or search through multiple computer screens to find the necessary information while the customer is waiting on the phone. If the information is not readily available the customer will be told: "I will have to call you back as soon as I find the correct information." While this

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takes place, other customers or prospects who call get phone recordings asking them to wait for the next available agent. Many times, they will hang up and place the order with a competitive supplier.

Besides the lost sales that cannot be measured, the additional manual efforts required by Customer Service personnel results in increased operating costs. Companies who sell to the chain stores face severe ramifications. Incorrect or delayed shipments get returned, resulting in penalties. The “charge back” terminology is a phrase business dreads. Instead of getting paid in full for shipped merchandise they get penalized and paid partial payments. Not having a choice, many businesses learn to live with this fact of life saying “it’s the cost of doing business” with he chain stores, who found a way to increase their bottom line profit.

At times if shipments are delayed or inaccurate, the chain store will stop doing business with the supplier. Recently, I was recommended by IBM to a company that lost a major chain store as a client. After getting costly “charge backs” for inaccurate and delayed shipments, the chain store stopped doing business with them. The customer, realizing the short-comings of its computer system, stopped using its inventory module and resorted to manual efforts that are very costly.

The “domino affect” of business disruptions goes beyond incorrect and delayed shipments. Returned inventory creates a new chain reaction of business disruption. After the inventory is shipped, new inventory gets purchased to replenish the supply. When inventory is returned, it will often become excess inventory that may have to be financed until it’s sold. The customer who returned the inventory will not pay the invoice until credits and adjustments are issued, resulting in aged accounts receivable that will have to be financed. The accounting department is over-worked issuing credits or adjustments for inaccurate shipments and will often miss the discount given by their supplier for early payment. This “domino affect” of losses increases the cost of the operation and affects bottom line profit.

Excess Inventory in the Warehouse:

An un-automated warehouse can also result in the “domino affect” of excess inventory and increased operating costs. Very often, half-empty shelves are consolidated when new inventory is received to make space for it. Lacking the ability to scan the bar coded labels and up-date the computer in real-time mode, warehouse personnel have to update the computer manually with the new location information of the consolidated inventory.

If warehouse personnel forget to update the computer, the consolidated inventory will not be found when it has to be shipped. This creates an artificial shortage of inventory and new inventory will be purchased while the misplaced inventory is collecting dust on the shelves. This misplaced inventory will not be found until the next physical inventory takes place and will often become excess inventory.

Recently, I visited a company that is a division of an expensive knife manufacturer overseas. Having an outdated computer system, the purchasing agent did not have accurate information and purchased enough excess knife holders to last them for the next 10 years. When we walked through the warehouse, I asked the computer manager how they can 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."

Despite the fact that management is aware of the computer deficiencies, they are not willing to take steps to purchase a new system. When we asked the computer manager if management is considering upgrading the computer system his response was: "We spent a lot of money on a system that does not work properly. By buying a new system, someone will have to be accountable to headquarters overseas for the money spent on the old system. Not wanting to be blamed, none of upper management is willing to take responsibility and admit that a mistake was made."

Summary:

Outdated computer software that "has been working fine" for many years creates a chain reaction of business disruptions resulting in losses. Not wanting to replace the "old reliable computer software" by saying: "Why replace it and incur new expenses if it's working fine. i.e., 'if it ain't broke, why fix it?' creates a "domino affect" of business disruptions resulting in lost sales, excess inventory in the warehouse, and increased operating costs, affecting bottom line profit.

In today's competitive business environment, operating costs are increasing and profit margins are shrinking. Having accurate computer information about warehouse inventory and avoiding hidden costs is a "must" for businesses to have in order to be able to compete successfully in today's changing business environment.

About the author: Since 1980, Dani Kaplan has worked with corporate executives to improve purchasing, increase warehouse and distribution efficiency and implement the solutions that result in substantial savings and productivity improvements. He is president of SMC Data Systems, Inc. (www.smcdata.com) and can be reached at 212.714.3536