

The “Domino Effect” of Business Disruptions

By Dani Kaplan

Many companies who are reluctant to replace their old computer software say: “if it ain’t broke, why fix it?” What they are not aware of is that this kind of thinking can result in the following “Domino Effect” of business disruption:

- Lost sales
- Increased labor cost and lost revenues
- Excess inventory

Lost Sales:

Using an outdated computer system will often result in increased manual efforts and frequent bottlenecks. When customers call to place orders often they often will be told: “my computer shows that we have the inventory in stock, but we have to manually verify it.” Next, Customer Service personnel will have to call the warehouse and verify the computer information. If additional information is needed, Customer Service will have to search through multiple computer screens or check the drawer 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 takes place, other customers who call have to wait until someone is available to help them. Those who don’t want to wait will often hang up and place the order with a competitive supplier.

Increased Labor Cost and Lost Revenue:

Distributors who sell to the chain stores face severe ramifications if products are shipped late or incorrectly. Besides returning the delayed or incorrect shipments, the distributors will be penalized by the chain stores. The “charge back” terminology is a business phrase distributor’s dread. Besides having the merchandise returned, they get penalties and receive only partial payments. Not having a choice in the matter, many distributors have learned to live with this fact of life saying: “it’s the cost of doing business” with the chain stores, who have found a way to increase their bottom line profit.

At times, if shipments are delayed or shipped inaccurately, the chain store will stop doing business with the distributor. Recently, I was referred by an IBM rep to a distributor who lost a major chain store as a client because of incorrect and delayed shipments. After charging the distributor hefty “charge backs,” the chain store decided to stop doing business with them. The distributor, realizing the short-comings of its computer system, stopped using its inventory module and resorted to manual efforts that were very costly.

Incorrect shipments create a “domino effect” of business disruptions. After the inventory is shipped, new inventory is purchased to replenish the supply in the warehouse. Returned inventory 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 the Accounts Receivable being financed. The Accounting Department, which is over-worked issuing credits or adjustments for the inaccurate shipments, will often miss the dead-line for early payment discounts given by their suppliers. Thus, this incorrect shipment starts the “domino

effect” of increased operation costs, lost revenues and at time, lost customers.

Excess Inventory:

An un-automated warehouse is one of the leading forces in the “domino effect” causing business disruptions and increasing 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 or enter the information incorrectly, the computer records will not reflect the correct inventory status and it will not be found when it’s time to ship it.

While the misplaced inventory is collecting dust, the computer will show an artificial shortage. The Purchasing Department, not having accurate information of what is in the warehouse, will often order additional inventory. The misplaced inventory won’t usually be found until the next physical inventory takes place frequently becoming excess inventory.

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 purchased additional knife holders that will 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.”

Summary:

Outdated computer software that “has been working fine” creates a chain reaction of business disruptions across the entire company’s infrastructure. Not wanting to replace the old software with the excuse “if it ain’t broke, why fix it?” creates a “domino effect” resulting in lost sales, increased operating costs and excess inventory in the warehouse.

In today’s competitive business environment where operating costs are increasing and profit margins are shrinking, having accurate computer information is a “must” in order to be able to compete successfully and maintain the bottom line profit.

About the author: Since 1980, Dani Kaplan, President of SMC Data Systems, Inc., 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.