Dan Kaplan • www.smcdata.com • Tel: 917-647-2466

How to Lower Operating Costs

In today's unpredictable business environment, many companies are looking for ways to streamline their operations and lower their operating costs. The declining value of the dollar results in higher prices for imported inventory and the associated costs of bringing it to the USA.

In this highly competitive market, the charge-backs inflicted by the chain stores create a new reality -- making companies realize that unless they streamline their operations and lower their operating costs, they risk severe losses.

In a good economy, many people tend to overlook various issues with their operation, attributing it to the "cost of doing business." In today's challenging business environment, companies realize that in order to lower their operating costs and increase efficiency, they must upgrade their outdated computer software. Last year I got a panicked call from the Technology Director of a large accounting firm regarding an important client who realized after the yearly audit was completed that he had sold his products for less then he should.

The client, a large importer/distributor, sells a high volume of novelties at a low gross profit margin and never paid the proper attention to his landed cost, assuming it would balance itself at the "end of the day." In the past, selling in a good economy with a strong dollar, the landed cost always balanced itself out. Now in a weak economy and declining dollar value he got a bitter surprise when his accounting firm gave him the bad news, after the year-end audit was done, that he had sold his products for a $1,000,000 dollars less then he should.

The Technology Director was afraid he would lose his client and asked for my advice. In order to avoid the same problem from reoccurring, I suggested that his client buy a new computer system with accurate inventory control and landed cost tracking. This would have enabled them to control the inventory on hand

Dan Kaplan • www.smcdata.com • Tel: 917-647-2466

and would have given them the ability to monitor the landed cost closely during the year rather then getting bad news after a year-end audit.

Facing today's new reality of rising costs and declining profits, companies can take the following steps to lower their operating costs:

- **Tracking inventory while in transit**: Monitoring the inventory while in transit and knowing the expected arrival date at the warehouse can be tracked by computer. This results in companies being able to sell the inventory prior to its arrival in the warehouse. With this information, companies can inform their clients when they can expect to receive their orders.

- **Cross Docking**: Prior to the inventory arriving at the warehouse, print open orders with bar-coded labels. Once the inventory arrives at the warehouse, dock the open orders, scan the inventory barcode labels, and ship off the warehouse dock. Then place the balance of the unshipped inventory into the warehouse. This helps keep the optimum level of inventory without over-stocking and will lower operating costs since the inventory does not have to be placed in the warehouse, picked and then shipped.

- **Accurate Shipping**: Scanning the inventory before it's shipped results in more accuracy, insuring that the correct products and quantities are shipped. This practice prevents returns that carry double freight bills and which might become excess inventory. Another side affect of incorrect shipments is that pending invoices are not paid until the credits for the returned merchandise are issued.

- **Calculating the freight amount.** By interfacing the carrier scale to the computer at shipping time, the computer files will be updated with the freight amount when the products are weighed. Invoices can be produced instantly and accompany the shipment, or printed at the end of the day and mailed.

This will save the Accounting Department the time it takes to make adjustments for items that were not shipped or substituted, adding the freight amount to the invoice, and then sending it out.

- **Validating the inventory cost:** When new inventory arrives at the warehouse, it gets scanned and matched against purchase orders. This verifies that the quantity received and costs are accurate. If a discrepancy is found, the vendor bill is placed on hold and the appropriate people can be notified via email. The vendor bill should not be paid until the discrepancy is resolved. An appropriate computer system can handle all of this automatically.

- **Landed Cost**: The declining dollar results in the rising cost of imported inventory and the various services associated with it. Often this will cause landed costs to be higher than anticipated. Once all the various bills arrive they should be entered into the computer and the landed cost can be re-calculated so the computer records will be updated reflecting the true landed cost. Not having an accurate landed cost can result in the misfortune the large novelty importer/distributor had when he realized that his merchandise was sold at a loss.

- **Buying new computer software**: Often companies buy new software based on the demo they see, not taking into consideration their users' ability to learn and use the software. This will often result in a very large learning curve causing business disruptions, high implementation costs, and financial losses. Before having a demo, write up a business requirement list. Include all of the issues affecting daily operations that you want addressed at the demo. For more in depth information on organizing business issues and selecting software, see "How to Choose the Right Software for Your Company": http://www.smcdata.com/articles/choose-the-right-software.html

The Web can be a very good vehicle to lower operating costs and improve customer service. Besides entering new orders via a conventional shopping cart, an integrated computer system allows customers to view their orders, see past buying patterns, change orders, and track shipments. In addition, the Web can be used as an on-line catalog where products and promotions can be displayed.

In today's new business reality, the phrase that was often used in the past "if it's not broken, don't fix it" can have devastating ramifications resulting in severe business disruptions and financial losses. Charge backs, which chain stores are using to penalize their suppliers, and hesitation on the part of banks to lend money, have created a new reality that cannot be ignored.

About the author:

Since 1980, Dani Kaplan has been working with manufacturers, distributors and retailers as a trusted advisor - helping them lower their operating costs, streamline operations and take control of their inventory. Dani can be reached at 917-647-2466 or by visiting http://www.smcdata.com/