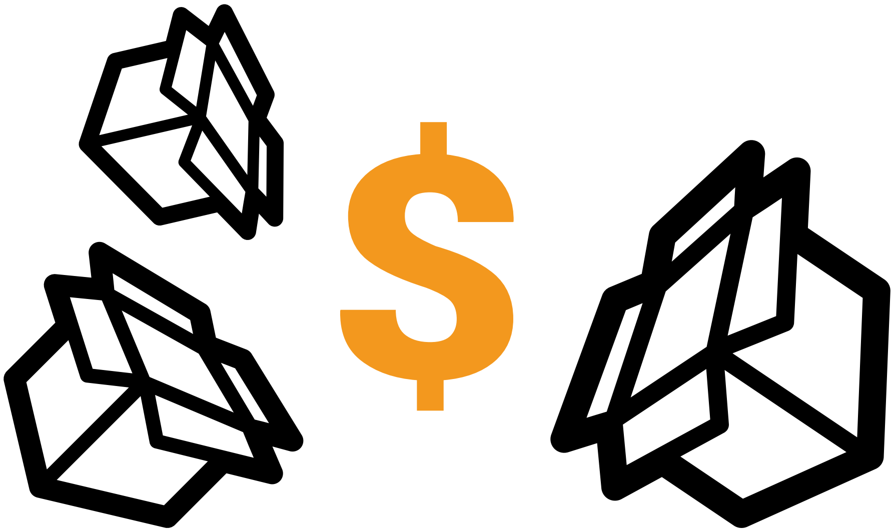


2016 WHITE PAPER

# Is Excessive Inventory Trapping Your Profits

## Planning, Promotions and Projections

Your Supply Chain Matters.™

TECSYS®

**MANY DISTRIBUTORS FACE SERIOUS CASH FLOW PROBLEMS, LARGELY AS THE RESULT OF DRAMATICALLY REDUCED OR EVEN NEGATIVE SALES GROWTH**

Cash-challenged operations have looked at opportunities to reduce investment asset groups. There is one main category that stands out as being both large and controllable... no surprise this is inventory.

Reducing inventory is an admirable effort, however in many cases the potential for lost revenue as a result is a major fear of many distributors.

## THE INVENTORY TRAP:

What are your non-productive assets? It's imperative to scrutinize the trade-off between maintaining sales volume with a proper and required investment of inventory vs. having too much money tied up in those non-moving items. Non-productive inventory increases overhead and operating expenses for each day the inventory remains on the shelves. This reduces gross margin when you finally decide to mark down the assets in order to move products.

## EVALUATING YOUR NON-PRODUCTIVE INVENTORY:

You will likely find that your inventory includes some large overstocks. Typically this falls into the 80/20 rule, where 20 percent of your items account for 80 percent or more of your excessive inventory/overstocks; these 20 percent are your first priority and should be worked into a slow moving item(s) strategy.

Another typical scenario is having small overstocks on many items. This is at the other end of the spectrum, usually where 80 percent of items comprise of 20 percent of overstocks. It may appear that any one item is inconsequential financially, however many individual small overstocks will impose a financial drag on total cost of ownership.

***"What if lowering my inventory leads to higher occurrence of out-of-stock situations?"***

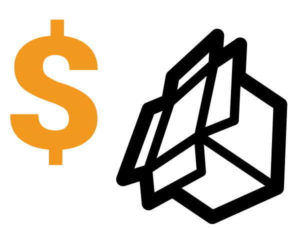
It is crucial that companies avoid any inventory reduction that impacts sales. It is always tempting when in a cash-crunch to quickly turn to inventory reduction as a solution, however this is only beneficial in the short-term.

Keeping the 80/20 rule in mind, the first priority is to address the few items with the largest volume of overstocks. Some of you may need to get creative and try multiple strategies or combinations of tactics to find what works best for your business and your products. Using all the marketing tools in your cache to promote these cash-flow leaches; consider marking down items in your peak season as this may provide the best opportunity to move overstocks quickly.

Not to be the bearer of bad news but there is no singular solution for the 80/20 comparison. This inventory trap requires routine review and frequent analysis. Businesses with this inventory trap should target a sales minimum per month for moving these items, reviewing monthly to remove items from future procurement activities. The cost of holding this inventory and waiting to sell at full price may outweigh the immediate benefit of selling at liquidation. This is why it is so important to determine a strategy with this inventory and stay aligned to it, reviewing the results of marketing efforts frequently.

## REDUCING INVENTORY REQUIRES BOTH A REALISTIC GOAL AND A SPECIFIC METHODOLOGY:

**Left unaddressed, non-productive inventory can pose financial drag on your cash-flow. You can reduce negative impact and produce positive outcomes by implementing a strategic plan to get rid of excess and analyse product moving rates to assist in future procurement activities.**



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