

Being Exceptional

How Distributors Can Thrive by Changing their Inventory Game and Serving Customers Better

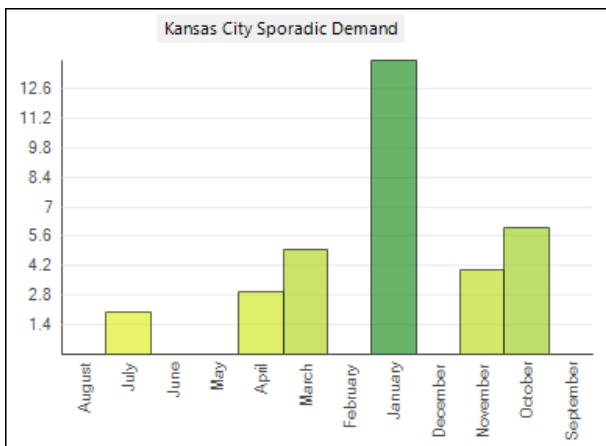
If your demand management process isn't helping you boost inventory turns and operational efficiency, you're wasting a significant opportunity. This whitepaper, compliments of DDI System, takes a look at how modern demand management and inventory forecasting will help you ensure availability (hint: it's all about exceptions), become an invaluable partner to your customers, and drive sales. This paper reflects insights from more than two decades of ERP experience with thousands of wholesale distributors.

A Tall Order for Today's Distributors

Anyone running a wholesale distribution business knows it's all about demand management: getting customers the order they need, when they need it, at the right price. From the outside, it might sound like a clear-cut objective. However, to compete in today's fast-paced distribution environment, your business must be exceptionally in sync with vendors and customers. Advanced demand management gives you the ability to turn product on a dime, by accurately anticipating customer needs that go beyond the norm and pinpointing the ideal stock levels – all while boosting profit.

That's a tall order.

On top of the demand management challenge, many established distributors are struggling with outdated ERP systems. Not only are these systems costly to maintain; they simply can't keep up with the turnaround speed and efficiency required for profitability in today's distribution environment. On the other end, smaller distributors are realizing that they have outgrown their desktop inventory and order management software, which now limits their ability to compete and grow. In either scenario, these systems are unable to provide the level of operational efficiency and actionable customer insight that can make a distributor an invaluable partner. And that means lost opportunities.



On the upside, it's a very exciting time to be a distributor:

- According to the National Association of Wholesaler-Distributors (NAW), total wholesale trade sales in the United States totaled \$5.4 trillion and is on the rise.
- Deloitte's 2016 Global Manufacturing Competitiveness Index (a survey of more than 500 CEOs and senior executives of the world's leading manufacturers) shows that the United States, now ranked second after China, is expected to take over the top spot as the most competitive manufacturing nation in the world by 2020.
- In another potential boost for the economy, Harvard University's Joint Center for Housing Studies showed the number of Americans preparing to renovate their homes in 2016 is rising. The report estimates that spending on remodeling and repairs will climb 8.6 percent this year to \$310 billion.

These trends are good news after the difficult economy over the last decade. So, what can distributors do right now to better serve customers and be ready to take advantage of the coming upswing in manufacturing? The answer lies in operational efficiency, especially inventory management and getting closer to customers.

Going Beyond the Norm

Increasingly, customers expect more modern processes and better service from their distributors – and if customers aren't getting added value, they are likely to look elsewhere.

In order to up their game, distributors should focus on improving two critical processes:

Managing the exceptions in inventory demand: It's not enough anymore simply to meet recurring customer needs. Successful distributors are going beyond the norm, with the ability to accurately identify and plan for exceptions in demand.

A study conducted by Effective Inventory Management, Inc., the consulting firm headed by inventory expert Jon Schreiberfeder, highlights the importance of understanding demand: "When studying a wide range of distributors using a wide range of computer systems, we found the mean forecast error was 682% and the median forecast error was 381%. "Best Practice" companies had an error that was approximately 1/10th of these averages. [Using better inventory forecasting practices, distributors easily reduce errors.]" Jon goes on to say: "Every time you sell from inventory, you have the opportunity to earn a profit. The more you "turn" your inventory, the more opportunities you have to earn profits."

In a similar vein, DDI System found that an overwhelming majority of product demand is intermittent. The company undertook an intensive analysis of demand patterns at 10 wholesale distribution companies. Combing through product demand for distributors of different scale ranges and vertical markets, the research found that 87% of the products stocked by plumbing and HVAC distributors should be classified as sporadic. Paper, packaging and janitorial supply distributors, with their smaller, more focused product offering, showed 81% of their inventoried products have sporadic demand. The impact that a well-designed sporadic demand system would have on inventory value and first-time order fill rates was truly significant. Implementing this component of a demand management system would begin producing positive results almost immediately.

The problem is that intermittent (sporadic) demand is difficult to forecast without the right tools. In other words, how do you plan availability for products that customers need at random, with many time periods showing no demand at all?

The answer, for many distributors, is not very well. These organizations mistakenly are using traditional forecasting

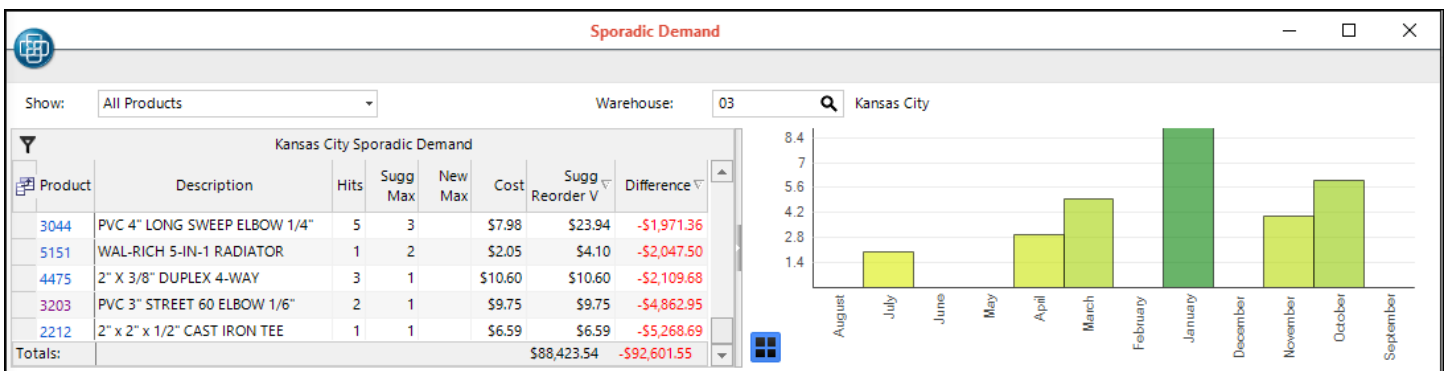
methods such as moving averages or exponential smoothing. Or, they rely on unscientific methods such as their own business knowledge to anticipate exceptions. But these methods are no longer reliable or cost-efficient. A typical mid-sized distributor could waste tens or even hundreds of thousands of dollars because of excess inventory and stock-outs.

The good news is that the more modern ERP solutions have the capability to quickly analyze data at the individual transaction level. That is, instead of using an imprecise average of periodic sales, the software analyzes the actual, most common order - quantities for these products - a much more effective approach.

A modern system will take into account an intermittent product's value, and determine the number of orders to stock.

Adam Waller, co-founder and President of DDI System, has this advice for distributors struggling with demand management. "A demand strategy based on historical trends or other traditional measures just won't cut it anymore. To improve your business, consider a solution that allows you to automatically identify the various types of product demand you really have - even as the demand is occurring - and to accurately forecast the ideal stock level to meet those demands."

For example, a mid-size heating and plumbing supply house in the northeast was struggling to balance inventory levels on slower moving, sporadic products. Using Inform ERP Software's sporadic demand forecast algorithm, the company is able to reduce over \$50,000 in sporadic stock in each of its 5 warehouses, freeing up over \$250,000, eliminating the projected need for a larger warehouse, and reducing carrying costs by approximately \$2500 per month.



1. Providing immediate access to detailed, actionable customer information:

The most successful distributors today are those with customer-centric systems. This means, for example, when a salesperson pulls up a contact screen, he or she should be able to see - in the opening view - detailed data including any immediate opportunities or “due to buy” orders. In addition, modern systems give the salesperson a view of other customer-related events and tasks, all connected to the salesperson’s calendar.

An ERP system’s sales history is a trove of actionable data. A real time “due-to-buy” analysis continually monitors frequently purchased products, and reports on an individual customers due-to-buy items.

*For example, **Inform ERP** makes the most of that calculation, with customer-specific reorder screens highlighting due-to-buy, and a drill-down sales opportunity report that values every overdue reorder opportunity. Salespeople access this ‘OrderPad’ and opportunity worksheet in the office or in the field, from any mobile device.*

According to Waller, customer management functionality should be “baked in” to distribution management software. “If your ERP doesn’t look and smoothly perform like a customer management system, you run a big risk of losing out to a competitor who has the capability to provide better service,” he says.

Changing Distribution Model

The business model is changing for wholesale distributors. Distributors are looking to make and strengthen customer connections, and operate with streamlined and integrated processes. Distributors need to modernize systems to compete. Waller advises distributors to start by asking themselves two questions:

1. Are we able to handle exceptions in product demand easily while improving inventory turns and maintaining the highest possible order fill rate?
2. Are we adding value with services, exceeding customer expectations on responsiveness and ability to fill orders?

If the answer is no to either of these, it’s time to consider implementing more innovative technology in order to compete and grow. To join the ranks of the most successful distributors today, it takes modern demand planning solutions that allow for superior inventory management, deep customer insight and exceptional service levels.

Sidebar: Continuous Process Improvement at Bender

Bender, which supplies plumbing, HVAC, waterworks, lighting, and kitchen and bathroom products, is a longstanding fixture in Connecticut. Founded in 1946 with company roots going back to the 1920s, the company today has seven showrooms between Hartford and Stamford, about 30 miles from Manhattan.

According to Mark Chirgwin, head of operations for Bender, the region is crowded with commercial and residential suppliers and showrooms. Yet, Bender has managed to retain customers - some over several generations - and grow market share. The reason for the company's longevity? Chirgwin points to Bender's long-standing focus on enterprise technology as a key factor.

"In the mid-1990s, we realized we needed a better way to manage inventory and sales," says Chirgwin. "ERP technology was just becoming mainstream, and we looked at a lot of options. Ultimately, we implemented DDI System's ERP solution in 1996."

And for the past twenty years, according to Chirgwin, the two companies have grown in parallel. As DDI has added more advanced functionality, Bender has kept pace by making sure employees increasingly make use of new capabilities.

In particular, according to Chirgwin, the sales game has changed. When it comes to customer relationships, he says, "old school doesn't work anymore." At Bender, manual processes and number crunching have been replaced with modern software that streamlines everything from generating quotes from the floor to accurately forecasting and planning for seasonal demand trends. "We've been able to continuously take service to a higher level, without losing the personal touch," says Chirgwin. **"Technology has helped get us where we need to be, and that's closer to our customers."**



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DDI System's **Inform ERP** distribution management software is the award winning, industry specific solution for wholesale suppliers. DDI's **Inform** software combines everyday operational benefits in accounting, inventory, sales, purchasing and pricing with the latest sales driving tools such as cloud connectivity, mobile apps, embedded CRM, real-time e-commerce and more.