



Surplus Stock
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You've all heard the ads on TV:

We've just received a huge shipment from our manufacturer and are seriously overstocked. Hurry in today for a great deal on a new car!

Inventory liquidation sale this week! Our oversupply of new dining room sets means great savings for you!

Do you ever wonder how businesses get themselves into this situation? Are the ads just a come-on, or have the business owners exerted so little control over their inventories that they find themselves in a surplus stock situation?

As a wholesale distributor your goal is to turn your inventory 5 to 6 times a year while providing excellent customer service. The existence of surplus stock certainly guarantees high customer service levels, but overstocks kill your turns and in the long run, impact your bottom line.

If you suspect that your warehouse is full of surplus stock, where should you start? Fortunately, good computer software solutions are available today to help you identify your surplus stock. Look for the following features in a software package:

- The system should be capable of calculating a surplus point for each stock item in each of your warehouses. If you stock the item by ordering it directly from the manufacturer, any quantity on hand over and above the Line Point plus the Standard Order Quantity is considered surplus. If you stock the item by transferring it from a central warehouse to a branch warehouse, any quantity on hand over the Maximum is considered surplus. In addition, anything over a year's supply is also considered surplus.
- The system should include a Surplus Stock Report with the capability of listing all items for which surplus stock is available and the amount of that surplus stock. The ability to print the report for ranges of products, product categories, vendors, or warehouses is also helpful.
- The system should list surplus stock amounts for each product in each warehouse on Inquiry screens.
- The system should print surplus stock amounts on any replenishment reports generated for purchase orders to manufactures or warehouse transfers to branches.

OK. Now you have identified your surplus stock. The time has come to identify and eliminate the business practices which led to those oversupplies. Look for the following problems:

PROBLEM: The quantities which display on your computer terminal are merely a suggestion of what might be sitting on your warehouse shelves.

REACTION: Order just a little more of the stock item just in case the computer numbers are inaccurate. That way, you can be assured that stockouts won't occur.

SOLUTION: Cycle count! Count a portion of your inventory every night. Your people will begin trusting the numbers in the computer.

PROBLEM: Warehouses are allowed to "steal" stock from one another when they can't fill the order out of their own warehouse.

REACTION: Warehouses begin inflating their inventories just in case that guy over in the cross-town warehouse misjudges his potential orders and comes begging for stock again!

SOLUTION: Allow warehouse personnel to "steal" from other warehouses ONLY when surplus quantities of the stock item are available, and make the warehouse that has the surplus pay the freight. Your people will begin ordering stock based only on their own customers' usage.

PROBLEM: I can't meet my manufacturer's minimum buying requirements!

REACTION: Add a few fast moving items to the PO, even though it really isn't time to order them yet. We'll get rid of them eventually!

SOLUTION: Increase the quantities of the items already identified to be placed on the PO until the minimum buying requirement is met. Do not include stock items which are still above their Line Point; you'll destroy your next line buy! If you consistently cannot meet your manufacturer's minimum buying requirements, consider re-negotiating with your supplier. The product line may be a dangerous line!

You've now identified your surplus stock and eliminated the business practices which led to that surplus stock. What are the benefits to your bottom line?

- Look for your average inventory value to decrease along with the insurance costs associated with safeguarding that inventory.
- Look for more space in your warehouse. Your warehouse personnel can now organize the warehouse efficiently, eliminating the lost time hunting for an item that was stashed back in the corner.
- Look for less dead stock. No more surplus stock that became obsolete stock!
- Look for a more favorable cash flow. All your money is not tied up in excess stock.

In summary, if you apply the disciplines of identifying surplus stock and eliminating the business practices that lead to surplus stock, you will directly affect your bottom line. And as a bonus, you will never need to allocate funds to a Surplus Stock Ad Campaign!

Marcia Robertson is a Technical Writer with Tech Systems, Inc., a provider of software systems and services to the wholesale distributor. Marcia conducts Gordon Graham based inventory management classes and provides inventory management consulting to Tech Systems' customers. Marcia's Surplus Stock article has been published in several national distribution magazines and newsletters such as Beauty Inc. and The Distribution Advisor.