



Excess Inventory Case Study

Compudigital assists a major manufacturer in reducing obsolete and slow moving inventory levels

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Business situation

Our customer, a major manufacturer of Consumer and Specialty Electronics products had a large volume of excess material in stock, some being in the slow moving or discontinued category for more than 1 year. Realizing that this excess was a major burden in many ways, the company contacted Compudigital Industries via a personal reference.

Specifically, the excess inventory was a burden because:

- *The excess was being taxed at cost at the end of every fiscal year*
- *Warehousing/holding expenses for this inventory was directly affecting the bottom line*
- *The marketing groups were being side tracked because management was attempting to get them to market obsolete and slow moving inventory along with the current products*
- *The excess material was losing value by the day. As more products were being introduced, the value of the current excess dropped even further.*
- *Most importantly, the excess inventory list was growing*

The manufacturers perceived challenges with selling obsolete and slow moving product (*Marketing Group Push-Back*)

Our customer was getting some major push-back from their marketing groups for many reasons

1. *The perception that selling excess would somehow compete with the Primary Market (current) products*
2. *Marketing claimed to have buyers lined up for the material at discount prices but, because there was no incentive programs in place for the marketing team, the product was never sold*
3. *Marketing groups felt they would lose control of pricing thus, creating competition affecting their primary sales*
4. *Crushing the material was a possible option but management realized that not only would there be no return revenue, there also would be a substantial associated cost of certified destruction*
5. *A perception in the marketplace that they were “dumping” material into the market*
6. *The manufacturer didn’t want their name associated with selling their product at a reduced rate and “cheapening” their brand.*
7. *The marketing department didn’t want their “dealers” to become irritated because product was being sold to the public without being offered to them first*

Technical Web based situation

Our customer did not have a current technical solution that addressed the concerns and there was no solution planned or in sight. There was no department within their organization that could put together an online solution in any reasonable amount of time.

Solution

Compudigital had a solution in place within 2 weeks called ExcessManager. The ExcessManager WEB based excess sales program had been developed for another major manufacturing company and was in full operation.

Using our relatively small group of brokers at the time and our customer’s mailing list,

Compudigital created an online excess sales site to sell this excess at a discounted rate. We co-operated with the customer's marketing department in order to make sure that their dealers got the first opportunity to buy the slow moving/obsolete products. If the dealers did not respond quickly to a sale offering, a predetermined number of days, the site software automatically reoffered the item(s) to our extensive broker network and then the public.

One thing was easily proven... Everyone loves the great deals and the simplicity of the site software.

The 50-50 Program

The sale of inventory was a great hit just after the initial launch and was considered more than successful. But there was still a major issue that had to be resolved. The customer still had massive amounts of inventory in stock and was still subject to inventory tax. How could this be resolved?

After many meetings and finally at the insistence of the customer, Compudigital created the 50-50 program. This was certainly an out of the box approach that turned out to be a great solution for much of the inventory that the customer needed to move.

How the 50-50 program works:

- *The manufacturer (our customer) sells all slow moving and obsolete inventory to Compudigital for \$1 per item, or some pre-determined bulk value simply to get the inventory removed from the customers warehouse and moved into Compudigital's warehouse location(s).*
- *Compudigital takes ultimate possession of the material and maintains all warehousing*
- *Products are listed on the Compudigital maintained WEBSITE for a maximum of 4 months*
- *We work with the customer's marketing group to make sure that the initial pricing is reasonable (if required). Product pricing is continually dropped if products do not sell - (Rate of price decline per prior agreement)*
- *As products are sold, 50% is returned back to our customer (the manufacturer) A settlement report is automatically created by the site on the 1st day of each month outlining sales for the previous month etc.)*
- *A settlement check is issued by the 10th of the month following*
- *Products that do not sell within the 4 month period are:*
 - *Donated to charity – From Compudigital so there are no warranty issues*
 - *Sold in bulk with any residual revenue going to Compudigital (normally, if the product is not sold within the 4 month time frame, there is very little residual value)*
 - *Responsibly Destroyed*
- *Online reporting is available to the manufacturer in real time 24/7/365*

The benefits of the 50-50 program

The 50-50 program was controversial when it was first implemented however, the benefits far outweigh the perceived problems.

- *Slow moving and obsolete inventory is relieved from the manufacturers books immediately*

- A return of 50% the sales price follows as products are sold
- There is a timed solution to keep excess and slow moving inventory levels low

Benefits of Compudigital resolving the Excess Issues

- Dealers were satisfied because they always received the offering first or, and at a greater discount than the public.
- Slow moving and Obsolete material moved quickly (if it was priced according to market value)
- Marketing received back valuable contact information from the site including
 - *Contact information for the buyers*
 - *What the buyers purchase*
 - *Purchase volumes*
 - *What people are looking for (From Search history)*
 - *Warranty related information regarding type of products sold - NEW, Refurbished etc.)*
- *Dealers purchase more than the public*

What was the eventual outcome and current status

- The site was scheduled to be online for 1 year starting 2001 and almost 7 years later is still in full operation
- The manufacturer has our site listed on the front page of their main company WEBSITE and on the header of all pages
- Dealers and the public visit the site every day and buy products
- Site has sold over \$19M in excess and obsolete products
- 2,300 accounts currently active
- Manufacturer averted the cost of destruction and realized some gain with a net upside

How the perceived challenges became opportunities

1. *Selling in the "Secondary market" has not presented any competition with respect to primary product sales.*
2. *Marketing was not saddled with the responsibility of selling material that was out of date or slow moving*
3. *There has been no known affect on primary sales or if there has been, it has never been brought to our attention*
4. *Selling the material produced a Net Gain (50% of the revenue vs (Cost of Destruction+ written off value)*
5. *Compudigital is always the seller of the product, resolving the concern that the manufacturer is "dumping" material on the market.*
6. *Since Compudigital is the selling company, there is no reflection on the manufacturer*
7. *The dealers are always excited to be the first to be able to get the material at a discounted price*

Products and services Compudigital used

- Adobe Cold Fusion driven WEB Application (ExcessManager) developed by Compudigital)
- All servers housed in our cage at the Herakles Data Center (Sacramento)
- No other third-party products were used for the solution.

Appendix A

Company profile

Jeffrey L. Hilliard and Compudigital Industries Summary of Qualifications

Areas of Expertise

- Creativity
- Programming
- Process Development
- Product Returns Management
- Hardware in software integration
- Internet Sales
- Warehouse Operations
- Quick turnaround processes
- Inventor of 3 patented products (U.S. Patent #s 5,272,474, 4,695,547, and 4,882,281)

1985 - Developed one of the world's largest residential security systems for American District Telegraph, San Jose, CA. This system monitored a 36,000 square foot home belonging to an Iranian Oil Minister.

1990 - 1998 - Invented and developed the Progenitor, a genetic Fusion Device used in cancer research and plant development. This system was sold through Hoefer Scientific Instruments in San Francisco and was instrumental in the development of herbicide proof tobacco. This allowed entire crops to be sprayed by a crop dusting aircraft. The tobacco plants were not affected by the spray but the surrounding weeds were destroyed, saving millions of dollars in labor. Using this device, scientists also developed a tomato with less water for Campbell's Soup, and the seedless watermelon. Our company eventually became the contract manufacturers to produce these devices for Hoefer Scientific.

1990 - 1999 - Developed and manufactured a high accuracy LED Digital panel meter for Hoefer Scientific Instruments in San Francisco, CA. This meter was used in many of the power supplies marketed and sold by Hoefer. Compudigital eventually became the manufacturer of this product and manufactured over 80,000 meters during a 9 year period.

1985 - Electrofusion Electrodes – Invented and manufactured an electrofusion electrode used to fuse (electroporate) genetic cells from two dissimilar plant varieties. This electrofusion is how scientists came up with the seedless watermelon and other new varieties of plants. I received a U.S. Patent (Patent #4,695,547) on September 22, 1987. I also invented a 3 ring electrode for the same purpose and received a US Patent (Patent # 4,882,281) on November 21, 1989. I have attached a copy of both patents to this communication for your review. Compudigital eventually became the manufacturer of these electrodes for Hoefer Scientific Instruments, now owned by Monsanto.

1990 - Designed Battery Charging Systems for Interspace Battery Company - Developed smart battery chargers for Fighter Jets where the charge level was adjusted based on battery post temperature. I discovered that as batteries charged, the temperature remains constant until a point where the charge is nearly complete. At that point, the battery temperature begins to increase where we scaled back the charge rate to a trickle level.

1990 - IntelliHost Restaurant Seating Management System - In 1990, Invented, designed, and manufactured the Intelli-Host system, a system that controls seating in a restaurant. Many restaurants within the United States use Seating Management Computers in their everyday business and these systems are designed around my patented invention. I was awarded a U.S. Patent as the inventor (Patent # 5,272,474) on December 21, 1993. I have attached a copy of this patent to this communication for your review.

1992 - 1994 - Worked with Disneyland in Anaheim, California and Euro Disneyland in Marne La Valle, France to install the first IntelliHost systems at the new theme park.

1994 - 1997 - Engineered and managed a customer product return center for Hewlett Packard where customer returns are processed. Through this process, our company provided evaluation and refurbishment services for many imaging products produced by Hewlett Packard for North America, South America, and parts of Europe. At the height of this process, Compudigital was able to evaluate, test, refurbish, and repackage from 20,000 to 25,000 imaging products per month at a cost of less than 50% of their cost to process this material internally. Eventually, this process was moved to Asia, home of the manufacturing facilities. All internet reporting systems for this process were developed by Compudigital programmers so process information could be sent directly to the customers in real-time. At this time, if Sony Felica has a need for a returns processing center, we can certainly handle the challenge.

1997 - Compudigital set up a process to modify and rework over 20,000 scanners in 1 month, using 30 of our own employees. Working with engineers from Rutishauser (The manufacturer from Germany), Compudigital successfully processed these 20,000 scanners long before the expected completion date in record time saving thousands of dollars in the process.

1996 - 2007 - I began working with Hewlett Packard in the marketing of their excess products, setting up one of the first Internet based auction sites, before Ebay existed. During this time, our company successfully took Hewlett Packard from the point where they were offering excess materials through FAX Auctions to the point where they were using the our internet exclusively to sell their excess.

2001 - 2012 Developed an On-line sales system for Sony Broadcast to sell slow moving and excess and B-Stock models. (www.bpcvalue.com) Compudigital has worked with Sony Broadcast ever since, marketing the same materials to over 3,000 customers.

2002 - 2018 – Have worked with Hewlett Packard to develop a full on-line sales system to allow them to market products to their primary market partners with full trackability. HP continues to utilize this software today to sell products to their primary market partners.

2003 - 2007 - Developed a system for General Electric, NBC Television in New York and Universal Studios in Hollywood that displays vendor catalogs to purchasing agents, allowing them to purchase products via the Internet from vendors that do not have the expertise or funding to develop systems on their own. This system called a "punch-out" system has been in use since 2003 and continues to operate today. The NBC-Universal system is designed to integrate directly with NBC's E-Buy system and their new "SRM" systems using XML file transfer technology.

2004 - 2007 - Development on Online MeetComp system. Working in conjunction with Hewlett Packard, Compudigital developed a system called Meetcomp. This system tracks all pricing changes and change approvals using a WEB interface. The system is designed to assist major manufacturers in becoming Sarbanes Oxley compliant by carefully tracking price change requests and approvals, making all information available to auditors in a real time basis. This system is in full operation today and is used by over 100 people.