# american lighting association

## Proactive Showrooms

Ideas and inspirations for lighting showroom owners and employees.

November 2010

#### **Upcoming Live Webinars**

Dec. 9 • 11 a.m. Central

How to Read Construction Drawings

Improving Your Lighting Sales Efficiency by Quick Analysis of Blueprint Information

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#### **Upcoming Recorded Webinars**

Dec. 6 - Dec. 10

Dimming and Lighting Controls: High Tech Products to Increase Your Profit Margins

Recorded July 2010

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Webinar Instructor: Joe Rey-Barreau

#### New Advanced Lamps and Light Sources Course Book Available in December

Advanced Lamps and Light Sources, a new course in the ALA's Certificate Specialist series, will be available this December.

The monograph will cover information on today's light sources, from incandescent to fluorescent and LED.

"Although the monograph is being produced as part of the Certificate Specialist program for Lighting Specialists, we really consider this a 'must-read' for all ALA members," said Nici Juneau, ALA director of education. "Consumers will have a lot of questions as energy efficiency regulations go into effect and newer light sources become more common."

The new monograph can be ordered online in the ALA Member Store at americanlightingassoc.com.

Proactive Showrooms is a publication of the American Lighting Association. Send business tips and story ideas to skelley@americanlightingassoc.com.

### Cut Inventory Costs and Boost Service Without Adding Technology

By Dick Friedman General Business Consultants, Inc.

With inventory at the lowest level in decades, there are two dangers to avoid: not having enough inventory to provide a satisfactory service level to customers and allowing the level of inventory to grow faster than sales. Even if the level of inventory is already too high, first focus on controlling its growth, then deal with handling the excess.

Service Level. Make sure that computer-generated service level reports measure service level from the customer's viewpoint. 100 percent service means that a customer received everything originally wanted, when wanted. Instruct customer service reps to enter data for all items and all quantities wanted, even those for which a rep knows there is a shortage or stockout, tells the customer that, and will cancel or back order an item/quantity when completing order entry. Make sure that cancellations/backorders reduce service level.

But, service level reports can be misleading because they reflect mistakes made in the warehouse, as well as insufficient inventory. So before reading service level reports, read "warehouse performance" reports, note the level of mistakes that affect service level, and make mentally adjustments when checking on service level.

Monitor service level by customer in total and by product group/line; anything below 96 percent is a problem. Be prepared to obtain service level reports for specific customers, with the data shown by individual item, and for specific items regardless of customers. Religiously read service level reports every month; if possible, every week.

Skyrocketing Inventory Level. This situation should be attacked before looking for excess inventory because, as most distributors know, these days there are no happy solutions for excess inventory. So prevention can avoid having to deal with unhappy, money-losing solutions.

Technically, the items to look for are

those where the recent rate of inventory growth exceeds the recent rate of sales growth by an unacceptable percent. Using the system's report generator, use the month-end inventory balance for each of the prior six months to calculate the growth rate. And use the sales in each of the same months to calculate the growth rate of sales. If inventory growth exceeds sales growth by more than X percent, show data (sales and inventory) for the item on a report.

For distributors not inclined to use a report generator, a report of day's supply on hand is an approximate way to find potential problems. Sequence the lines on the report by velocity code (e.g., "B"), then within velocity, by decreasing day's supply. When reading the report, remember that as the velocity decreases, the day's supply tends to increase because of purchasing minima; examine each velocity group by itself. There is no magic number of day's supply that is considered too much, but some distributors would use 30, 60 and 90 for A, B and C items. Remember, this is an approximation.

Excess Inventory. Forget about turn and earn, day's supply on hand, no sales in X months, and other measures that ignore the reason most distributors are in business – to earn a healthy profit. Use the GMROI report to identify items that need corrective action, those with a low return on investment. These items might include some with inventory levels not considered excess, as well as items with levels considered excess. Identify those items for which slight price increases would yield acceptable GMROIs. For the others, take the actions that were – or should have been – taken when sales were booming.

Dick Friedman is a recognized expert on inventory management and warehouse operations and technology for lighting showrooms and lighting distributors. Call 847-256-3260 for a free consultation, or visit www.GenBusCon.com for more information or to send e-mail.

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