

Warehouse Coach

Improving warehouse performance

Partnering to Reduce Obsolete Inventory

By Don Benson – www.warehousecoach.com

Twice in the last two weeks I was reminded of how the inventory in a warehouse can expand to the space available. I use the “inventory” as a general term here to include the materials or merchandise for customers, along with managements’ personal items (boats, antique cars, tires, etc.), company marketing and sales materials (banners, signs, show display booth materials, promotion materials, etc.), sales and accounting records, materials held for favorite vendors, and other items stored in remote corners of the building or in the top levels of pallet rack, often with signs on them that say “Do Not Count”. I think of each of these types of material as part of the “inventory” because it takes valuable space, as manager you are responsible for it, and if you ever have a fire, or theft, or damage to the warehouse you will need to have included it somewhere in the inventory records, if you ever want to file an insurance claim.

While it would seem that the obvious first option to solving this space issue is to find another place to store some of the inventory, or to move to a larger location, these are good ideas and often they are not possible. A second option is to investigate different ways to better utilize the available storage space. I have described some ways to do this in prior columns including how to measure the utilization of the storage capacity and simple changes like moving the load beams to reduce “head space”, etc. (See [Storage Space Utilization](#) and [Improving Space Utilization](#)).

In this column we will look at a third approach to consider, in that a dynamic business will continue to generate and therefore continue to need to dispose of dead or obsolete inventory.

Two companies I visited recently were wholesalers; each had several branch warehouses, serving different customers or geographical areas. In both companies warehouse management expressed frustration at the continuing challenge of limited warehouse space, that daily they received new SKUs and materials, struggle to find places to put them, and the lack of a process to dispose of obsolete or dead inventory.

In both companies we recognized that we needed to try something new, to try to work together with others in the company to address this space and inventory level problem: to manage both the growth and the disposal of obsolete and dead

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merchandise inventory, to spread the responsibility and make it a part of the daily work rather than only an exceptional event when the problem becomes extreme.

The Buying departments in these companies were not ignoring the problem. They were responsible for most of the inventory in the warehouse and aggressively acted to deal with slow moving and dead items. They moved slow moving materials between branches to serve customers still wanted them. They noticed when demand was declining they reduced purchase quantities or stopped purchasing them at all. They identified dead items in their systems and often gave larger commissions or other financial incentives to sales people dispose of them. They conducted occasional “tent” sales, and donated the remaining materials to worthy organizations that could use them. And still the dead inventory continued to grow, measured in committed dollars and cubic volume, and as a percent of the total.

We thought about what more could be done, considered many options we had seen in other companies and the two below were new to these clients and perhaps they will be new and might work for you.

The first approach involves a business strategy we learned from the retail industry that focuses on controlling the Buying function with a budget allocation of funds per Buyer called “open-to-buy”. With this structure, each Buyer is given a fixed total amount of money to spend. When merchandise is purchased the goods go into inventory. When the materials are sold the purchase value of the selling price is returned to the buyers account and is available to purchase additional or new merchandise. The Buyer does not have that money available again until the materials are sold. In effect the buyer is responsible for the materials from the time they are purchased until they are sold or disposed of. Obviously there is more to this open-to-buy process than I have described here. The point is that it works. With this structure Buyers are responsible, their performance is measured and they are motivated to optimize the turns on their money, and profit of their allocation of funds. Consequently, they are much more aggressive in marking down slow moving items, and the warehouse and stores do not get filled with these obsolete items.

The second option addresses the disposal of obsolete or dead inventory. Our recommendation recognizes that generally buyers, sales staff, and customers are not interested in dealing with obsolete inventory. They are interested in the newer SKUs that are easy to move, so it is easy to understand how difficult it can be to dispose of this merchandise through the normal sales channels. We also know that aggressive business practices require Buyers to take risks with merchandise, both

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new items and occasionally large amounts of basic goods when discounts are offered. So we can expect that in the normal course of business there will always be new dead and obsolete merchandise. Consequently, some of my larger clients are considering a new idea, the creation of a permanent sales position with primary responsibility for the sale of obsolete and dead inventory. This Closeout Sales person is eligible for pay and bonuses similar to the regular merchandise sales staff for outstanding work. We believe there are many benefits that come out of this approach, financially for the company and operationally for the warehouse.

While these options may not be appropriate for your company, I hope that they might stimulate you to consider looking at total company solutions. The impact of excess obsolete and dead inventory falls largely on the warehouse but it is a problem for the whole company and others should participate in solving it. Please let me know your thoughts about this column or other methods you have found to be successful in handling obsolete or dead inventory. You can reach me at coach@warehousecoach.com. I look forward to talking with you.