

INVENTORY CLASSIFICATION FOR WHOLESALE-DISTRIBUTORS

Many wholesale-distributor firms obtain up to 75 to 80 percent of their gross sales from as little as 15 to 20 percent of the number of inventory items or lines in stock. Value analysis of your inventory by item and by product line, with classification of items and lines by "A", fast-moving, high volume items and lines; "B", slow-moving, lower-volume items and lines; and, "C", very slow-moving (should they be carried?) very low-volume items and lines, is a very necessary first step toward good inventory management for maximum profit.

The "A" class items must be carefully controlled, so that they are **seldom, if ever, "out of stock."** These items are excellent candidates for perpetual inventory.* They may number only 15 to 20 percent of the items or lines and may very possibly account for up to 75 to 80 percent of total gross sales. The rate of turnover on this class of stock is so high that **carrying costs are usually minimized.**

The "B" class items need less careful control from the standpoint of *"out of stock"* sales losses. This class of item may even be excluded from the perpetual inventory system, if one is used. They may comprise between 25 and 35 percent of the number of items in stock and only account for between 10 and 15 percent of total gross sales. In this class of slower-moving stock items, turnover is lower and **carrying costs begin to increase**—thus bear watching.

The "C" items and lines, often 50 percent or more of the number of items in stock, need **NOT** be watched closely for *"out-of-stock"* reasons and very probably should **NOT** be in the perpetual inventory system, if one is used. They probably represent only 5 to 10 percent of total gross sales. These "C" items may often be adequately controlled as to reorder time by a *"tag system"* or *"bin-divider"* system. In this way, the higher carrying costs associated with Class "C" items will tend to be minimized. "C" items should be periodically checked for **possible elimination from inventory altogether** as customer service demands for them decrease.

Wholesale-distributors who concentrate their purchasing and control attention on the fastest-moving "A" items, and devise automatic *"minimum clerical work"* sys-

tems to adequately control slower-moving "B" and "C" items, periodically reviewing and eliminating stagnant *"stiff stock"* from inventory, will **increase sales, reduce inventory carrying costs, maximize profits and increase their return on invested capital**—a wholesale-distributor industry goal!

INVENTORY MANAGEMENT— KEY TO YOUR FUTURE

YOU are a *"distribution specialist"*—there is no other economic justification for your continued existence.

Marketing analysts and writers for business magazines and trade journals predict that in the near future wholesale-distributors will be confronted with dealing with larger and larger suppliers and customers, as manufacturers, retailers, business users and service establishments continue to increase in size and thus in economic power. To insure their continued use of wholesale-distribution channels, YOU, the *"distribution specialist,"* must attain optimum efficiency in the handling of inventory. This means you must increase the *"rapidity of flow of goods"* through your warehouse—maximizing inventory turnover rates and minimizing inventory carrying costs.

In the last analysis, the principal economic justification for the continued existence of the wholesale-distributor lies in his **ability to carry and move inventory near the point of demand at the least cost**—a lower net cost than others can carry it for themselves.

Therefore, **know YOUR cost of carrying inventory; know YOUR cost of acquisition;** and, above all, achieve that balance between those costs which will return the maximum profit to YOU!

Those wholesale-distributors who do so will have a better chance of being in business in the 1970's. **WILL YOU?**

Source: Exhibit 2

L. P. Alford and John R. Bangs (Editors), *Production Handbook* (New York: The Ronald Press Company, 1955), p. 397; Remington Rand, *Inventory Control for Wholesalers* (New York: Remington Rand), p. 2; and the National Association of Wholesalers, Washington, D. C.

NOTE: For further discussion, see Theodore N. Beckman, Nathanael H. Engle and Robert D. Buzzell, *Wholesaling* (New York: The Ronald Press Company 1959) pp. 371-372 and William R. Davidson and Paul L. Brown, *Retailing Management* (New York: The Ronald Press Company, 1960), pp. 272-274.

* It should be noted that mechanized inventory control systems (EDP) are usually designed to provide perpetual inventory on all items in stock. Even here, however, classification for report purposes may prove beneficial and worthwhile.