

The Advantages of a Central Purchasing Authority

By Jon Schreibfeder

Recently I worked with two large distributors that allowed their individual branches to completely control replenishment of the products they stock. Each location's management, buyers, and/or salespeople replenished stock whenever they felt it was necessary, using either a vendor purchase order or a transfer from another company location. Management at both firms was convinced that this policy would allow for the quickest possible response to customers' needs and result in outstanding service.

However, neither of these companies were providing great customer service, nor were they meeting their profitability goals. They suffered from several, apparently conflicting, inventory problems:

- Frequent stockouts of critical products
- Large quantities (and value) of excess inventory and dead stock
- Inaccurate product availability information in the computer system

Data analysis revealed that the underlying cause of these problems was the exact strategy that management had hoped would enhance their ability to serve customers effectively. **These problems were solved by instituting a central purchasing authority, which assigns specific buyers to replenish inventory of specific product lines in all customer locations.** These buyers had both customer service (i.e. product availability) and inventory turnover goals they were expected to meet or exceed. In order to accomplish these goals, buyers:

- **Ensure that replenishment orders were issued as soon as the net available quantity of a product fell below its order point** (lead time usage + safety stock or reserve inventory). This avoided customer backorders and "emergency" purchase and transfer orders.
- **Split replenishment orders between branches and centrally warehoused slower moving items.** The central warehouse serves as the lower volume branches' normal source of supply of these products, and buys enough from the vendor to meet the needs of both their own and the other branches' customers. The result: vendor purchase orders are issued more frequently, and several branches "share" one vendor package of slower moving products.
- **Identify and analyze possible unusual usage.** The buyer assigned to a particular line interviews salespeople and/or customers to determine if an unexpected increase or decrease in usage is the result of sales activity that will probably not reoccur, or the result of a new sales trend. The buyer then modifies future forecasts to reflect the collected information.
- **Approve all inter-branch transfers.** After all, they are responsible for maximizing both customer service (i.e., minimizing stockouts) and inventory turnover. For example, it may be advantageous to move the surplus stock of a popular product from a branch that is a

considerable distance from a location that needs the material, as opposed to a smaller quantity from a closer branch, if it will maximize overall corporate profitability.

It has been my experience that central purchasing authorities are superior to plans allowing branches to control replenishment of their products. All buyers are not necessarily physically located in the same office, but each is responsible for specific product lines throughout their company. ***Upon analysis of the data, we find that these clients achieved the results that every company desires: a maximization of both customer service and corporate profitability through effective inventory management.***

About the Author, Jon Schreibfeder

Jon Schreibfeder is president of Effective Inventory Management, Inc., a firm dedicated to helping manufacturers, distributors, and large retailers get the most out of their investment in stock inventory.

For over 20 years, Jon has served as an inventory management consultant to over two thousand firms to improve their productivity and profitability. Jon has designed several inventory management computer systems and has also served as a distribution industry “troubleshooter” for two major computer companies.

A featured speaker at seminars and conventions throughout North America, Latin America, Europe, Asia, and the Pacific Rim, Jon has been awarded the title “Subject Matter Expert” in inventory management by the American Productivity and Quality Center. He is an advisor and guest lecturer in the Industrial Distribution Program at Purdue University.

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