



# Distribution Center MANAGEMENT

Managing people, materials and costs in the warehouse or DC

## Inventory Management

### “Pruning for profit” is a perfect way to get control of your SKU count

At the typical DC, a third of SKUs are profitable, a third break even, and a third are money losers, says inventory expert Ed Frazelle.

The best way to take control of your inventory is to move out the unprofitable items. Frazelle, president of Logistics Resources International in Atlanta and author of the new book *Inventory Strategy*, calls it “pruning for profit.”

Before you can prune, you have to come to terms with the very idea of simplifying your SKU count. At most DCs, removing SKUs goes against the natural order of things; all tendencies are toward complexity, not simplicity.

“Pruning is not easy,” Frazelle says. “It’s painful.”

To make things worse, you can expect a battle from your marketing department, which won’t be keen to acknowledge that certain products simply aren’t earning their keep.

But weeding out the waste can yield big dividends. Frazelle points to a food-industry company that cut its SKU count from 3,000 to 2,000 items. As a result, gross margin, fill rate, and market share rose significantly, Frazelle says.

To cut SKU counts, managers must be

sensitive to product variations. Many inventory managers make the mistake of applying the same inventory model to all of the product, even though not all products have the same value characteristics or profile. Frazelle suggests a more nuanced approach, one that aims to adjust

for a variety of factors, such as: How profitable is the product? How big is it? How easy or difficult is it to stock?

Frazelle suggests looking at these factors.

- **Gross margin of the SKU.**

More profitable is better, of course.

- **How much square footage the SKU occupies.** Jewelry and cosmetics are high value, low-space items. Dog food is a low-value, high-space product. Smaller soft drink cans are an example of adapt-

ing to the cost of space.

- **Popularity of the SKU.** How often is the item requested by customers?

- **Popularity of the SKU with top customers.** “You can have an item that might not be all that popular across all the customers, but if it’s really popular with your top two or three customers, you would assign a higher value to it,” Frazelle says.

#### Pulling the weeds

Consider the following when analyzing your inventory:

- How much space does it take?
- How predictable is demand for the SKU?
- How popular is the item with your most important customers?

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- **The SKU's cubic footprint.** Square footage is one thing, cubic footage is another. This factor becomes more important if you're concerned about space on delivery trucks.

- **Complexity of managing the SKU.** Are suppliers overseas or domestic? Are modes of transportation unreliable?

- **Forecastability of the SKU.** Demand for sports jerseys, for instance, can be hard to predict.

- **Reliability of the supplier.** If you can count on the supplier, the SKU becomes more valuable.

- **Complementariness.** To what degree is the demand for that SKU correlated to other products? Apply this SKU analysis to determine which

items should stay in the portfolio and which SKUs should be removed.

It's a long list of factors to analyze, Frazelle acknowledges. "If you get overwhelmed, I say, 'Let's use three.' If you get overwhelmed with three, use one."

Frazelle suggests developing formal criteria for evaluating the value of a SKU. Assemble a project team, assign weights to each criteria, and give all SKUs a value ranking. Be sure to update the rankings through ongoing analysis.

"I've never seen it not work," Frazelle says.

Contact: Ed Frazelle, Logistics Resources International, 678-653-9807, [edfrazelle@lriconsulting.com](mailto:edfrazelle@lriconsulting.com). **DCM**

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712 Main Street — Suite 187B, Boonton, NJ 07005-1450

Telephone: (973) 265-2300 • Fax: (973) 402-6056 • Email: [info@DistributionGroup.com](mailto:info@DistributionGroup.com) • Website: [www.DistributionGroup.com](http://www.DistributionGroup.com)

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