Distribution Center MANAGEMENT

December 2010 Managing people, materials and costs in the warehouse or DC

From the Golden Zone

Snow blowers in the spring? Managing the seasonality of inventory

By Jason Bader

Virtually every DC deals with seasonality of products. Some industries are hit harder than others.

Industries like construction supply are among the most difficult to manage. Seasonal items may represent only 20 percent of the entire product offering, but they cause 80 percent of the headaches.

How many of us have experienced the sheer joy of carrying 400 concrete blankets through a summer season? Not much margin left in those bad boys by October.

Water coolers and jobsite heaters are a couple more groups that seem to give us fits in the contractor supply markets. Now, I don't want to belittle the importance of these products. I only want to suggest that we must learn how to manage these and similar seasonal products effectively.

Identify seasonal items

The above examples were easy targets. I am certain that you could sit down and come up with a hundred other products that fluctuate by season. An important distinction is that seasonal products don't necessarily have to do with weather changes. What about hunting season?

Beyond the obvious, there are several hundred items lurking in your inventory that could be considered seasonal. If we don't identify them as such, and manage them accordingly, we run the risk of being unable to fulfill customer demand at the beginning of the season; and even worse, we will wind up sitting on a tremendous surplus at the end of the season.

To identify these hidden products, run them through a seasonal item filter. A filter is nothing more than a rule, or set of rules, designed to identify a product. If more than 80 percent of your sales volume on a particular product occurs in any six-month period, that item is probably seasonal.

Notice that I did not say consecutive six-month period. There are some items that have a split season. One that comes to mind is rain gear. Rain gear generally sells in spring and fall but not summer or winter. So apply the rule to your inventory and search for those seasonal products. Who would have thought that epoxy anchors could be seasonal?

Know the season

Once you have run your products through the filter and developed your list of targets, spend some time determining when the season begins and when it ends. This is a critical step in meeting the needs of your customers. Remember, we are in the business of maximizing our service level while minimizing the inventory we carry. It is important to know when the season starts so we can have enough inventory to meet the needs of our customers.

Unfortunately, the real mystery seems to occur when it is time to shut off the faucet at the end of the season. This is why we tend to wind up with surplus at the end of the season. Most of us have come up with our own SWAG (Scientific Wild Ass Guessing) when it comes to turning off the faucet. I worked with a distributor in Denver who had a simple rule: Stop buying cold weather products on January 1. He had been working in that market for 20 years, and it seemed to work for him. A more accurate way to understand the season is to study the results of your filter.

Forecasting use for a seasonal item

On a nonseasonal item, use a rolling six-month average to predict usage. Take the last six months of usage, add them up, and divide by six to predict how many units customers will buy in the seventh month. Unfortunately, this doesn't work so well for seasonal products.

Let's go back to the water cooler example. If we know that the season begins in May, how accurately can we predict the future usage if we rely on the last six months? We wouldn't catch up to the demand until we were halfway through the season, and we wouldn't wind down our purchases until we were three months out of season.

For seasonal items, we need to look at the future six months from the previous year. This is a future rolling average. To predict usage for May, review May through October, take an average, and use that number as your May projection. June projected usage would be an average of June through November.

This would work great if business were consistent from year to year, but it's not. This is why we need to add one more factor to the calculation. We need to hit our predicted usage with a growth percentage or a decline percentage. If our overall business is up 10 percent over last year, increase your prediction by 10 percent. Conversely, if your business is down 10 percent, reduce your prediction by 10 percent.

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