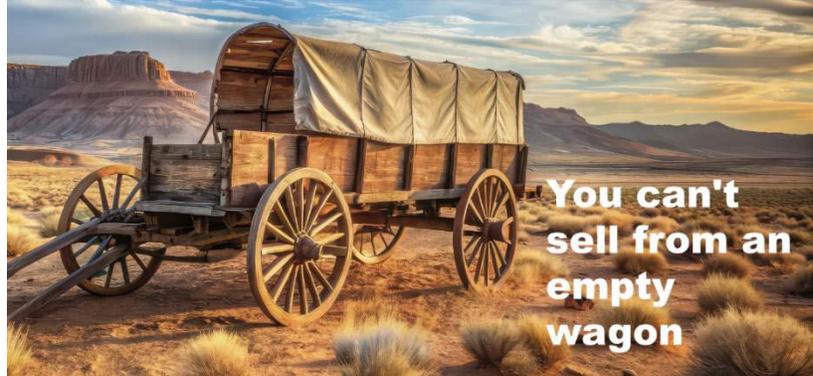


## Managing Inventory for Profits and Happy Customers

Having the products you need for technicians and for retail customers is the most critical part of a Parts Manager's job. A close second is keeping your inventory within budget. I experienced how difficult this task is to get right when I ran Parts at an RV dealership. Regardless of your strategy you will disappoint someone.



Just-In-Time inventory management techniques were created to better balance these priorities. The idea was to have as little inventory as possible knowing that your supplier could get it to you the next day. Usually, this strategy worked very well but Covid revealed a flaw in that design. Suddenly everyone was out of product and if you were closely executing a just-in-time strategy, you ran out of product in the first week. Technicians were upset, Service Managers were distressed and, in many cases, even General Managers showed their irritation (I am being nice here). So, it bears the question of how you really should manage your inventory. Like everyone else... I have an opinion.

### Just-In-Time Benefits

Just-In-Time inventory management has been defined as "a strategy in which companies receive the exact amount of inventory they need, right when they need it." (1) Tight inventory management as encouraged by this strategy has its benefits.

- **Less dollars:** Money in inventory is money that cannot be invested elsewhere. If you reduce the amount of money in inventory, then the company can use those funds for other investments. This could have the effect of helping them grow the overall business.
- **Less space:** As with money, freeing up space in your facility can be utilized for other purposes. Perhaps adding a service bay or needed office space. If inventory is reduced, don't leave the space empty, find a beneficial use for that area.
- **Changes:** Imagine if you have 50 tongue jacks in stock and a hot new version hits the market. Often you are not allowed to purchase the new one until the old ones are sold. But if your competition starts selling the new one, you may find the 3-month supply you purchased turns into a 12-month supply. Having a lean inventory allows you to pivot to new products quickly.

### Detriments of Just-In-Time

Just-In-Time is a tempting strategy for the reasons listed above. As seen from the Covid example above, there are some serious downsides as well.

- **Running out of inventory:** I am sure you are aware of the problems created by lack of inventory. You can't sell from an empty shelf. You will lose sales, retail customers buy elsewhere, technicians are upset... and the list keeps going. One source says "A company that uses this strategy may be ill-equipped to handle a sudden surge in demand for a product. The lack of backup inventory means customers must wait for the company to receive supplies and manufacture the product." (2)
- **No room for errors:** To ensure you don't run out of inventory, you must manage that inventory daily. The increased time involved must come from somewhere (time talking to customers, time serving technicians, etc.). The outage may be because of shipping problems, and you will have to scramble to recover. (3)

## Managing Inventory for Profits and Happy Customers

- **Not getting the best price:** When I was a Parts Manager most dealers would buy heavy at shows as the deep discounts more than offset the carrying cost. You don't get the benefit of monthly or quarterly promotions by distributors and suppliers. Therefore, your overall profits decrease. On top of that, any price increase from your supplier hits you immediately, which also impacts on your bottom line.

### What's a Parts Manager to do?

Either strategy taken to its extreme leaves you vulnerable to issues that will cost you in real dollars. Creating a hybrid is desirable but extremely difficult. It's important to realize that there is no perfect state, but here are some thoughts of balancing the strategies.

- **When to use Just-In-Time:** The key word is faith. When you have faith that your suppliers can deliver reliably, there is a case to be made for Just-In-Time. Even in those situations, don't manage the inventory too tightly. Give yourself room to maneuver.
- **When to stock more deeply:** Taking advantage of periodic specials such as show promotions will help grow your bottom line. Keys to this are to (a) take advantage of the savings on well-moving items, never on slow moving items and (b) to not buy so deeply that you get stuck with inventory. I have found that 3 months of inventory is a good cap.

### What's a Parts Manager to do?

By using a hybrid approach you will not reduce inventory costs as much as using Just-In-Time and if you use standard practices, you will not be able to maximize discounts as much as possible. But your customers (internal and external) will be well served, and you will maximize your overall profits.



### Ultra-Fab

Ultra-Fab would love to help you manage the difficulties of a hybrid inventory management approach. By working with our distributors, you can get product quickly. We also run bimonthly promotions to ensure you have the opportunity to grow your profits by utilizing our products.

For more information on how Ultra-Fab can help grow your sales and especially your profits, feel free to check out our dealer website ([ultra-fab.com/dealers](http://ultra-fab.com/dealers)) or contact Raymond Padgett (404.754.8928 or [raymond@ultra-fab.com](mailto:raymond@ultra-fab.com)).

Our dedication to supporting your inventory strategies and providing you with appropriate discounts are just two more ways that Ultra-Fab shows we are determined to help you make more money.