

## NewsBriefs

A www.Bloomberg.com news item on Nov. 12 noted that **Rexel** and **Hagemeyer** (of the Netherlands) reached an acquisition agreement after Rexel upped its offer from \$4.34 billion to \$4.5 billion to purchase Hagemeyer.

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**Thomas & Betts** announced it will pay \$450 million to acquire **Lamson & Sessions**. For Lamson shareholders, the price works out to \$27.30 per share, including a special dividend. The deal between the two companies is expected to close late in 2007.

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The Industrial Distribution Program at the Thomas & Joan Read Center for Distribution Research and Education at **Texas A&M University** turns 50 this year.

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**HD Supply Electrical**, a division of HD Supply, opened a 300,000-square-foot distribution center in Orlando, Fla., with 325 employees.

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**Hammond Power Solutions** joined **Affiliated Distributors** as a nine-star, preferred supplier in the U.S. Electrical Supply Division.

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**Graybar** opened a new 10,000-square-foot facility in Collinsville, Ill. The opening brings the total to 12 Graybar locations in Illinois and Missouri (including two regional distribution centers).

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**Coleman Cable** will be spending \$45 million to acquire **Woods Industries** and **Woods Industries (Canada)**, the electrical products businesses of **Katy Industries**.

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**Gexpro** recently leased a 35,252-square-foot facility in Hanover, Va., according to the *Richmond Times-Dispatch*.

## LESSONS FROM OTHER CHANNELS BY DOUGLAS GRAHAM

## Ordeal...or no deal?

Tips to help take the pain out of annual inventory audits.

**S**ome distribution employees would sooner go to the dentist than do an inventory of warehouse stock, even at time-and-a-half pay. Owners and managers like inventory no better than their employees, as SKU auditing slams the brakes on business, putting everything on hold until the ordeal is history. But merchandise is no less a currency of wholesaling than currency itself, making the yearly, biannual, or quarterly inventory a crucial aspect of doing business, and one as inevitable as death and taxes.

When performed improperly, old-style inventory auditing can add insult to injury. It may even be hazardous to the health of an enterprise, as it can virtually choke a distributorship with paperwork.

"In the past, conducting an inventory audit at our company was a little bit like controlled chaos," said Mike Bell, executive vice president of operations at Duncan Industrial Solutions, in reference to the paper-based system that was previously used by the Oklahoma City-based MRO supplier prior to its 2006 deployment of a sophisticated warehouse management system. "Our company really needed better controls on cycle counting, and inventory in general."

Duncan's paper chase often led to brick walls in the form of serial and SKU number tracking errors, pack and put-away mistakes, and other problems typically encountered as a result of human handling. Automation ironed out most of these wrinkles, and correspondingly smoothed out the company's scheduled inventory audits. But is system-wide automation an absolute prerequisite to pain-free SKU accounting? Absolutely not, according to experts in the area.

"Human contact facilitates human error," said Eric Allais, CEO, PathGuide Technologies, a developer of turnkey warehouse management systems for wholesale and industrial distribution

headquartered in Seattle. "At the same time, however, a regular and accurate count of the inventory is 100% necessary to a distributor because without it, irreparable damage may be done to its ability to satisfy the merchandise requirements of customers.

"The problem," Allais continued, "is that many distributors are mom-and-pop shops for which the deployment of super-sophisticated solutions are neither appropriate nor affordable. Thankfully, for operations such as these, there are a number of well-established methodologies that make an efficient inventory audit possible without the need for a large investment in technology."

**Cycle counting**

"Wholesale merchandise is most effectively managed and accounted for via the maintenance of a perpetual inventory," said Terry Harris, a managing partner at Chicago Consulting. Perpetual inventory is achieved by factoring SKUs that are entering and leaving the warehouse against known stock on hand. "This can be done via a homemade inventory management solution, one sold by a provider for thousands of dollars, or a simple Cardex system," Harris explained, adding that Cardexes were the norm in pre-computer days, and still are for many small operations.

Perpetual inventory maintenance begins with cycle counting, a function that entails an ongoing warehouse inventory audit, section by section. With cycle counting, a chunk of the warehouse's total merchandise is measured on a weekly, monthly, etc., basis—virtually eliminating the need to conduct a brutal annual audit.

Cycling also precludes the other liabilities associated with a warehouse-wide inventory count—such as the needs of shutting down the organization's operations on a weekday or paying employees

## UPFRONT

extra wages (and other enticements such as catered lunches) to work a weekend.

"Our company started cycle counting not too long ago," said Tom Ottenbacher, technology director at Wurth Service Supply, an Indianapolis-based distributor of industrial fasteners with 40 warehouses throughout the United States. "At the moment, we're only doing it in a couple of locations; concurrent with that we are working on a software program that will help us cycle count effectively enough so as to expand the program company-wide. We expect to go full board with cycle counting sometime next year."

Cycle counting is currently in effect at Wurth's Des Moines, Iowa, warehouse; and the company's headquarters facility in Indianapolis. According to the Ottenbacher, SKUs at both locations are classed A, B, C, or D, depending on factors such as cost and frequency of sale—As are counted most often, followed by Bs, and so forth, until everything but a handful of goods is accounted for. Apart from having to keep track of the small amount of merchandise that falls through the cracks, annual inventory for the two warehouses has been pretty much done away with altogether.

### Toward a perpetual inventory

"With respect to inventory audits, the biggest problem we have is that some of our employees tend not to do what they're expected to do in this area until the day comes to count everything," Ottenbacher said. "I'm talking here about keeping merchandise properly labeled, putting it where it's supposed to be, and maintaining a neat and tidy warehouse environment so that things can be found when they're needed."

Wurth has come up with several initiatives for coping with such problems—including affixing activity labels to boxes that once contained many individual items indicating the number of SKUs that remain. Measures such as this lessen the burden of inventory audits in an obvious way. Another is the use of sophisticated scales capable of weighing a box of SKUs precisely enough to make an accurate determination of the number of items inside.

"There are many, many time-honored solutions to easing the pain of conducting a wall-to-wall inventory audit," Harris said. "It makes good sense, for example, to simplify one's part number system. Instead of assigning a number or code that in some way signifies what the specific part is, try something short, sweet, and totally unique that you can cross-reference with suppliers and maybe even customers. It's also good business to employ warehouse space as economically as possible, count by velocity with fast-movers counted first and most frequently, and maintain an obsolescence plan so you can track deteriorating SKUs and dispense with them strategically.

"The merchandise in the warehouse is a distributor's most important asset," he added, "and it should be treated accordingly. Inventory is currency. It's as simple as that." ■■■

*Graham is a St. Louis-based freelance writer. Reach him at 314-821-7932.*

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