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FREE GUIDE

Free Up Cash Tied in Dead Stock

Inventory Intelligence for Mid-Sized Distributors

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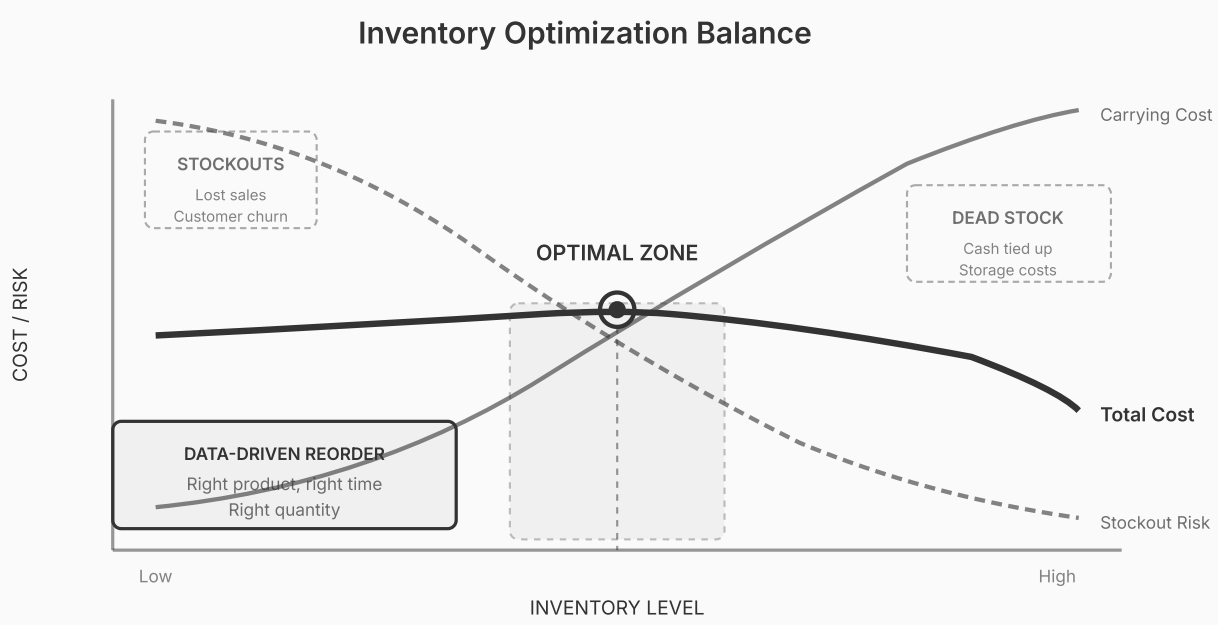
15-25%

Cash Released

Inventory intelligence frees up 15-25% of working capital tied in dead stock.



Walk your warehouse floor. Somewhere in those racks sits inventory that hasn't moved in eighteen months. Items you bought because sales was sure they'd sell. Products from a supplier who gave you a great deal on volume. Emergency stock for a customer who switched to a competitor last year.

That dead stock ties up cash. It takes up space. And every month it sits there, it becomes harder to move.

Most distributors carry 15-25% of their revenue in inventory. For a $30 million distributor, that's $4.5 to $7.5 million in working capital locked in shelving. A chunk of that inventory is dead. Another chunk is slow-moving. Only a portion turns fast enough to justify the investment.

The fix isn't working harder. It's knowing which SKUs matter and which ones don't.

What Dead Stock Actually Costs

Dead stock has three costs, and only one is obvious.

The obvious cost: carrying expense. Warehouse space, insurance, handling, obsolescence risk. Most estimates put carrying costs at 20-30% of inventory value annually. A million dollars in dead stock costs $200,000 to $300,000 per year just to hold.

The hidden cost: opportunity. That cash could be inventory that actually turns. If you're carrying $500,000 in dead stock instead of $500,000 in fast-moving products, you're missing sales. Products that turn six times per year generate revenue. Products that sit generate nothing.

The strategic cost: decision paralysis. When inventory analysis is painful, people stop doing it. Dead stock accumulates because nobody wants to confront the decision to write it off. The longer it sits, the bigger the write-down, the more reluctant anyone is to face it. Avoidance compounds the problem.

One electrical distributor we worked with discovered $1.2 million in inventory that hadn't moved in two years. The eventual write-down hurt. What hurt more was realizing that money had been unavailable for products customers actually wanted.

How Dead Stock Accumulates

Nobody buys inventory hoping it won't sell. Dead stock starts as reasonable decisions that didn't work out.

A customer requests a special product. You buy it. The project gets cancelled. Now you own inventory with a market of one buyer who no longer needs it.

A supplier offers volume discounts. You buy deep to hit the price break. Demand shifts. You're stuck with 18 months of supply at a product whose market moved on.

A product line gets discontinued. You don't notice until reorders fail. The replacement isn't a direct substitute. Customers who wanted the old product don't want the new one. Stock sits.

Forecasting misses. You predicted strong demand in Q3. It didn't materialize. Now you're holding Q3 inventory in Q4, competing against newer products.

Each decision made sense at the time. The system that lets these decisions accumulate is the real problem.

Identifying the Problem SKUs

The first step is visibility. Which SKUs are actually dead?

A simple ABC analysis sorts inventory by sales velocity. A items turn frequently. B items turn moderately. C items barely move. This is table stakes. Every inventory system can run this report.

The useful analysis goes deeper.

> **Days of supply by SKU.** How many days of demand does current inventory cover? Ninety days of a fast mover is appropriate. Ninety days of a slow mover is a problem waiting to happen.

Trend analysis. Is velocity increasing or decreasing? A SKU selling 10 units per month on an upward trend is different from 10 units per month trending down. One needs more inventory. One needs less.

Customer concentration. If one customer represents 80% of a SKU's demand, what happens when they switch suppliers? Understanding concentration identifies risk.

Margin by SKU adjusted for turns. A 30% margin product that turns twice yearly produces 60% return on inventory investment. A 15% margin product that turns twelve times produces 180%. Margin alone misleads without velocity context.

This analysis reveals which inventory earns its keep and which drains resources.

Demand Forecasting That Works

Most distributors forecast with spreadsheets and gut feel. Sales predicts high. Purchasing hedges down. Someone averages the numbers and hopes for the best.

Better forecasting uses data systematically.

Historical baselines. What did this SKU actually sell in the last 12, 24, 36 months? Not what people think it sold. What POS data shows it sold. Start with reality.

Seasonality patterns. Some products have predictable seasonal swings. HVAC components spike before summer. Lighting sells before winter. Building materials track construction cycles. Good forecasting accounts for known patterns.

Trend adjustments. A product that sold 100 units monthly two years ago and 150 units monthly

last year probably won't sell 100 units next year. Linear trend extrapolation beats flat assumptions.

Customer signals. Large customers sometimes share project pipelines or forecasts. When they're willing to, incorporate their data. Even rough guidance beats pure statistical inference.

Market context. New competitive products. Tariff changes. Supply chain disruptions. Regulatory shifts. These don't appear in historical data but affect future demand. Forecasting systems need human input on context statistical models can't see.

A food service distributor improved forecast accuracy from 62% to 78% by combining statistical baselines with structured input from sales. The gap closed further when they added customer POS data. Better forecasts meant less overstock and fewer stockouts.

Optimizing Reorder Points

Reorder points determine when you buy more inventory. Set them too high, and you carry excess stock. Set them too low, and you run out.

The traditional formula balances lead time, demand variability, and service level targets. For a SKU with 7-day lead time, 100 units average weekly demand, and 15% demand variability, a 95% service level target might set the reorder point at 115 units.

This formula breaks down in practice for several reasons.

Lead times vary. Your supplier quotes 7 days but delivers in 5 to 12. Using the average misses the variability that causes stockouts.

Demand isn't stable. Weekly demand of 100 units might be 40 one week and 180 the next. Averages smooth over spikes that cause actual stockouts.

Service levels differ by SKU. Running out of a commodity product inconveniences customers. Running out of a specialty item loses the sale entirely. One size doesn't fit all.

Dynamic reorder points adjust based on actual conditions. When lead times lengthen, points rise. When demand becomes more variable, safety stock increases. When a SKU shows declining trend, reorder quantities shrink.

One building materials distributor reduced average inventory by 18% while improving fill rates from 94% to 97%. The difference was SKU-level reorder optimization instead of blanket policies.

From 4x to 6x Turns

Inventory turns measure how many times you sell through your average inventory in a year. Four turns means you cycle through inventory quarterly. Six turns means every two months.

The jump from 4x to 6x isn't just arithmetic. It's operational transformation.

At 4x turns on $5 million inventory, you're carrying $1.25 million at any time. At 6x turns, you're carrying $833,000. That's $417,000 freed up for other uses. At 25% carrying cost, that's over $100,000 annually saved.

Getting there requires several shifts.

Faster dead stock disposition. When something stops selling, move it out. Don't wait for the perfect buyer. Sell at clearance prices. Return to suppliers where possible. Donate for the tax benefit. Scrap what can't be moved. Quick action beats prolonged hope.

Tighter reorder quantities. Buy less, more often. Yes, you lose some volume discounts. You gain inventory freshness and flexibility. The math usually favors smaller, frequent orders over large, infrequent ones.

Supplier negotiation on lead times. Faster replenishment allows leaner inventory. Push suppliers on lead times. Consider alternative suppliers with better delivery. Sometimes paying slightly more for faster turns nets positive.

Customer demand visibility. When you can see customer inventory or consumption, you can plan better. VMI (vendor-managed inventory) programs give you demand signals earlier. POS data sharing improves forecasts. Closer customer relationships enable leaner operations.

Cross-location optimization. Inventory sitting dead in one branch might sell in another. Transfer before writing off. Consolidate slow movers to one location to free space at others.

Building the System

Inventory intelligence requires three components: data integration, analytics, and action workflows.

Data integration connects your sources. ERP for transactions. WMS for location and movement. POS or EDI for customer demand. Supplier portals for lead times and availability. The data exists in silos. Integration creates the unified view.

Analytics transforms data into insight. Dead stock identification. Forecast generation. Reorder optimization. Turn analysis. The analytics layer interprets what the data means.

Action workflows turn insight into results. Automated reorder suggestions. Dead stock disposition queues. Exception alerts for forecast misses. Without action mechanisms, analytics becomes interesting but ineffective.

Many distributors attempt this with spreadsheet exports and manual analysis. It works at small scale. It breaks at mid-size when SKU counts exceed human capacity to track. That's when purpose-built inventory intelligence earns its keep.

Getting Started

You don't need sophisticated systems to improve inventory performance. Start with what you have.

Week 1: Run a dead stock report. Identify every SKU with no sales in 12+ months. Calculate the total value. Face the number.

Week 2: Classify dead stock by disposition path. Return to supplier. Sell at clearance. Transfer to another location. Donate. Scrap. Assign every dead item to a path.

Week 3: Execute the easy dispositions. Supplier returns and clearance sales first. Free up cash and space.

Week 4: Analyze slow movers. Which SKUs have declining velocity? Which carry excessive days-of-supply? Build the watch list.

Month 2 and beyond: Review reorder points. Are safety stocks appropriate for actual demand variability? Are lead time assumptions accurate? Adjust the SKUs with biggest gaps.

This manual process reveals what automated systems would show instantly. It also builds the organizational discipline that makes any system effective.

The Working Capital Payoff

Inventory optimization frees cash. That cash has options.

Fund growth. More salespeople, more territories, more marketing. Inventory reduction finances expansion without external capital.

Reduce debt. If you're carrying a line of credit to fund inventory, improved turns reduce borrowing. The interest savings compound.

Improve terms. Cash-strong distributors negotiate better with suppliers. Pay early for discounts. Buy opportunistically when deals appear.

Weather disruptions. Cash reserves provide options when supply chains break or customers delay payment. Lean inventory operations build resilience.

The distributor who moved from $1.2 million in dead stock to $400,000 didn't just clear shelves. They funded a new sales territory without borrowing. The inventory wasn't earning anything. The sales territory does.

> *Ready to find the cash hiding in your warehouse? Talk with our team about inventory intelligence for your distribution operation, or explore our full wholesale distribution solutions.*