

*Stock versus
Stockless:
Considerations*

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Note: This handout describes some of the factors that you may consider when deciding to be a stocking dealer or go stockless. However, it is by no means a complete or exhaustive treatment of this complex subject. Each individual dealer must weigh the pros and cons for his or her particular business, and assume responsibility for the decision to be a stocking or stockless dealer. DDMS will not be held responsible for decisions you make that are based on this handout or on discussions with DDMS employees on this subject.

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The decision to stock inventory or be stockless is a very complex one. There are no simple answers — each method has advantages, and each dealer must weigh a large number of factors when deciding which method would be best in his particular situation. Some dealers are successful as stocking dealers, and others are successful as stockless dealers.

This handout presents some of the factors you should consider. It is by no means a complete list, since every dealer's situation is unique. These factors are simply a starting point.

Stocking dealers carry enough inventory to meet the day-to-day needs of their customers. Stocking dealers may not stock everything they sell — they may stock some items, and use stockless methods for other items. Stocking requires a larger facility, more personnel, and more capital than a stockless operation. However, stocking lets you take advantage of lower prices by buying from manufacturers. For many dealers, it may be the most practical way to ensure that merchandise is available when their customers need it.

Stockless dealers carry little or no stock. They receive products on a same-day or next-day basis. The merchandise they receive is prepackaged and prelabeled for each customer, and may even be sorted by delivery route. Since it's prepackaged, merchandise can move quickly from the wholesaler's truck to the dealer's delivery truck. Stockless operations require minimal outlay for facilities and personnel. However, nearly every stockless dealer must stock some items. In some cases, a product may be so much less expensive when purchased direct that it's worth stocking. In other cases, items may be hard to obtain quickly, and must therefore be stocked.

Some of the factors you should consider when deciding whether to stock or be stockless are described below.

Who Are Your Target Customers?

Commercial: Commercial accounts may be handled by stocking or stockless operations.

Retail: Retail dealers must stock in order to meet the needs of their customers.

Mail Order: Mail order operations usually find it better to stock.

National Drop Ship: The national drop ship programs offered by some wholesalers are stockless operations. The merchandise is shipped directly from the wholesaler to the customer. Orders can be sent from the wholesaler facility that's closest to the customer.

Government: The pricing constraints required for government contracts may require you to stock merchandise for these accounts.

What is Your Business Mix?

If your business is narrowly focused, it makes it easier to determine whether you're better off as a stocking or stockless operation. (If you sell only retail, for example, you need to stock.)

If you compete in several different markets, however, you may find that some operations require stock, and others are better stockless.

Some considerations follow for different business types.

Stationery: Supplies may be sold by either method.

Furniture: Some furniture may need to be stocked, due to a lengthy lead time.

Data processing supplies: Your source for this merchandise determines which method is best; if your wholesaler can deliver quickly enough, a stockless operation may be feasible.

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Machine sales and service: You may find it best to stock the machines you sell. A machine service business usually requires that you stock commonly used repair parts.

Computer Equipment: It's best to keep stocks of computer equipment as low as possible, since this month's state-of-the-art computer may be obsolete next month.

Art supplies: Since this business is primarily retail, it's better to carry stock.

Where Are Your Customers Located?

Your customers may be in the local metropolitan area, in a wider metropolitan area, or all over the state. You may also have national or international customers. The closer your customers are, the easier it is to maintain a stockless operation; customers in the wider metropolitan area or across the state may be difficult for stockless operations to serve. On the other hand, it may be possible to serve national and international customers stocklessly by taking advantage of a wholesaler's national drop ship program.

What Are Your Customers' Delivery Needs?

Same-day deliveries are hard for a stockless dealer; it's easier to be stockless if customers will accept next day delivery.

If you sell on a first-available basis, you may need a combination of stocking and stockless methods. Merchandise that you can buy cheaply from the manufacturer, for example, would need to be stocked.

What Sources Are Available?

Local wholesaler: If a wholesaler's facility is close enough, stockless dealers can use it as if it were their warehouse, picking up merchandise when needed.

Next-day wholesaler: A wholesaler who delivers on the next morning can be used by a stockless dealer, if the dealer can satisfy customers with next-day deliveries.

Two-day wholesaler: Wholesalers who deliver in two days can be used by stocking dealers, but not by stockless dealers, unless their customers will accept two-day deliveries.

Manufacturer: Manufacturers are best suited to stocking situations, since delays in receiving merchandise would cause problems in a stockless situation.

Internal production: If you manufacture some items in-house, you'll probably need to stock those items.

How High Are Your Personnel Costs?

Since stockless operations require fewer personnel than stocking operations do, high labor costs make stockless methods more attractive. Conversely, stocking becomes more attractive where labor is cheap and plentiful. You also need to consider union contracts, which may make it difficult to lay off employees when moving to a stockless operation, or expensive to hire new ones when moving to a stocking operation.

If competition for employees is intense, and you can't afford to pay the wages paid by your competition, a stockless operation may be a good solution.

How High Are Your Facility Costs?

Stocking operations require larger facilities, and these facilities must be suitable for storing merchandise. When considering the suitability of a site, consider its location, and the chances for theft, fire, floods, and so on.

A number of factors affect the cost of a facility, such as the number of sites available and the competition for those sites. You also need to consider insurance and maintenance costs, and real and personal property taxes. Real property taxes are levied on the facility itself, and personal property taxes are levied on the inventory. In addition, some states have franchise or single business taxes, which increase with the value of your inventory.

What's the Nature of Your Competition?

The competition you face will influence your decision. Cost may be more of an issue when competing with national dealers, for example, than it is when competing with other local dealers. Cost is also an important issue when competing with mail order businesses. You may decide to stock so that you can buy merchandise at a lower cost.

When competing with other types of businesses (groceries that sell office supplies, for example), consider what kinds of direct comparison customers can make between your business and your competition's. If you're stockless, for example, customers may perceive that you don't have the products they need, and decide to buy from the grocery store.

How Much Capital Do You Have, and How Expensive Is It?

Several sources of capital are available. From least expensive to most expensive, they include: internal capital within your business, the owner's personal capital, banks, stock offerings, and other investors.

Stocking operations require more capital than stockless ones do — inventory can tie up a considerable amount of money in goods, shelving, warehouses, and personnel. If you're stockless and can't get more capital, you may not be able to move to a stocking operation.

If you're a stocking dealer who lacks capital but wants to expand, you may be able to do so by beginning to build a stockless operation.

What Systems Capabilities Do You Have?

If you intend to switch from one method to another, you need a computer system that can handle it. Fortunately, your DDMS system has features designed for both stocking and stockless dealers. Several of the newer features we've added, such as the automated short-buy and national drop ship, can be particularly helpful for stockless dealers.

In addition to a computer system, changing from one method to another requires that you have the proper processes in place. You'll need someone with the expertise to train your employees on the new methods. If you have to hire an outside consultant for this purpose, you need to determine how soon you'll get a return on your training investment.

What Is Your Marketing Thrust?

The way you market your business may adversely affect a change from one method to another. If you're a stocking dealer, for example, and your ads emphasize the huge selection of items you have on-hand, and the vast floor space of your facility, your customers may react negatively to a stockless operation. If they see that you've sold off your stock and warehouses, they may even think you're going out of business. In addition, your competition may try to capitalize on your changes by painting them in a negative light.

If you contemplate a change, whether from stocking to stockless or from stockless to stocking, you may need a carefully crafted marketing campaign to provide a smooth transition for your customers.

You should also think about your company's future direction. Does a change to a stockless or stocking operation fit in with your long-range plans?

