

Best Practices in Channel Inventory Management

Why worry about channel inventory?

Channel inventories can represent either significant business opportunities or considerable risks for suppliers—depending upon how well they are managed. A supplier that can effectively position inventories in the channel to match demand will maximize revenues and minimize inventories. By contrast, a supplier that doesn't properly manage channel inventory, accepts the risk of stock outs, inventory write offs and missed sales opportunities, not to mention the loss of customer goodwill. Inventory management also plays a significant role in supplier revenue recognition. Accurately knowing how much inventory is in the channel minimizes allowance, permitting the supplier to recognize the maximum allowable revenue.

Collect and cleanse channel inventory data

Clearly the best place, and possibly the only place to get channel inventory data, is from your channel partners (distributors, VARs, retailers, etc.). The challenge is often that collecting that data consistently and accurately is a burden on both the partner's and on the supplier's organizations. Channelinsight has been collecting inventory data on behalf of our supplier customers for over 10 years and we have developed a number of best practice processes to accomplish this challenging task.

Incentivize the partner to submit timely, accurate data

Too often, the supplier has not done a good job explaining to the partner what will be done with their data and that it will be secure. Describing this to the partner and building trust with them is the first step. Secondly, it is important to include data submission participation in your incentive programs as well as in your channel partner programs. Data submission should also be included in all of your contracts and should be a minimum requirement to be part of the supplier's partner network.



Figure 1: Word Map – “What Could A Technology Vendor Do To Make You More Comfortable Sharing POS And Inventory Data?”

Make it easy for the partner to submit data

Once partners are willing to share the data, it is critical to make submitting data a fast and easy process for the partner. Channelinsight has developed ChannelConnect, a set of submission options that make it easy for a partner to submit their data whether it is in EDI, CSV, Excel or other flat file format. Focusing on the data required, and not the specific format, makes it much easier for the partner to submit data and makes automating the process simple.

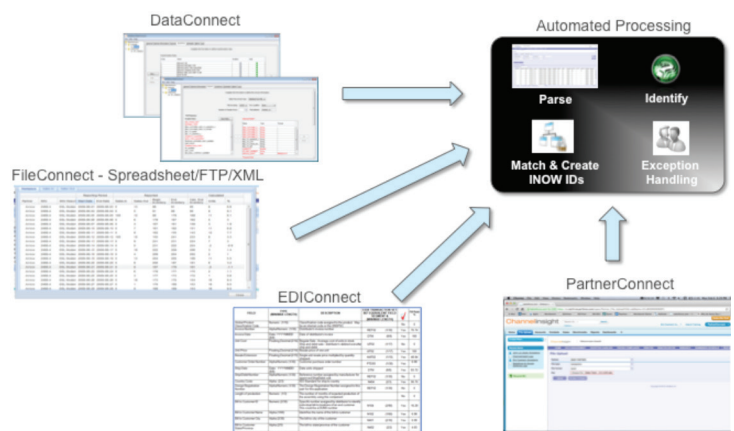


Figure 2: ChannelConnect – Automated Partner Data Submission Options

Measure the timeliness and accuracy of the inventory data you receive

Having the partner submit data is an accomplishment, but it is a necessity to receive high-quality and timely inventory data. Collecting old, poor-quality data is not worth the effort. Set up a submission scorecard that can measure the completeness and accuracy of the data you receive as well as benchmark if the data received was delivered when you expected it. Use this scorecard to then provide feedback to the partner and work together to improve the quality and timeliness of the data you receive.

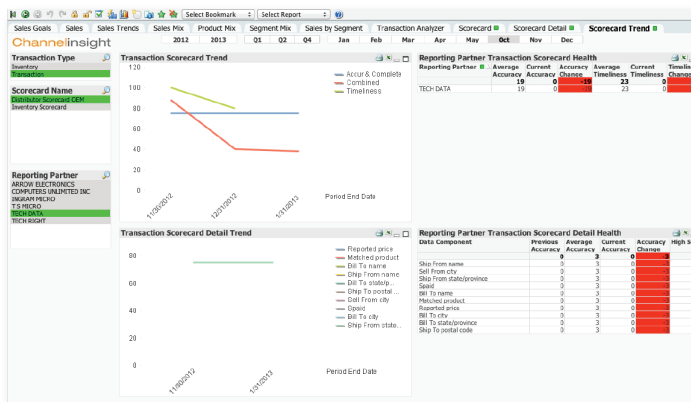


Figure 3: Partner Data Submission Scorecard

Cleanse and validate the submitted inventory data

Once the inventory data is received, it has to be standardized to be usable. Cleansing inventory data is not as difficult as it is for Point-of-Sale (POS) data but it still quite a task. There is a lot of data to clean and doing this manually is not recommended. As a core function, Channelinsight cleanses and validates channel data and has found the key elements to the successful cleansing of inventory data which includes matching the reported SKU to your catalog, valuing the inventory as of the day the inventory was reported, and normalizing the dates across partners so it can be analyzed.

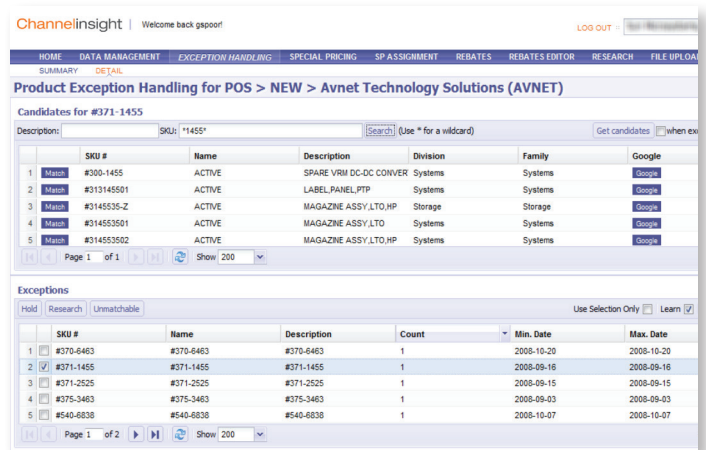


Figure 4: Automated Matching of Reported Products to Product Master Catalog

Manage channel inventory

With verified timely, accurate channel data, analysis must be done to identify opportunities to reduce inventory liabilities and position channel inventory to grow sales for the vendor and the partner. Analysis is done by using sales-in, sales-out data to understand partner inventory trends as well as identify anomalies in the data, allowing you to identify process issues or grey market activity.

Reduce inventory shortages and identify overages

The first goal of inventory management is to understand if partners have the right amount of inventory to support customer needs and the mutually agreed upon sales targets. The most common way to look at inventory data is to compare it to sales. Days or weeks of inventory are very easy to review. Essentially, days on hand is calculated by taking the average daily sales over a given period, for example 900 units sold over the last 90 days. That means that on average 10 units a day (900 / 90 = 10) is sold. If the distributor has 100 units in stock, they have 10 days of inventory (100 / 10 = 10). Typically a distributor will agree to a stocking level for a vendor's inventory. This stocking level can vary greatly from 4 months of inventory for high running or commonly sold products, to no inventory for low running or uncommon

inventory. On average, across all products, a partner may target holding 4 weeks of inventory for a vendor. With the visibility you gain through access to a partner's inventory data, you can insure customer needs can be met by having the optimal number of units in stock.

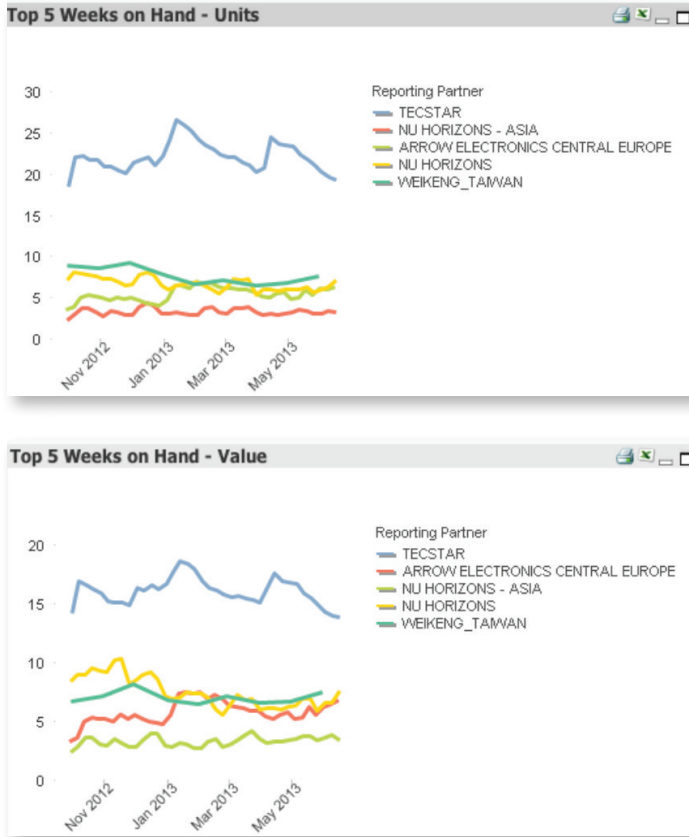


Figure 5: Example Weeks on Hand Dashboard

Figure 5 shows a common analytic view of top partners' inventory by units and by value. In this example, Tecstar has between 20 and 25 weeks of inventory for this vendor. Depending on the agreement between the vendor and Tecstar, this is likely too much inventory to support customers and is a burden on Tecstar. Partners likely do not want to carry too much inventory, as it can become a liability to them and possibly Tecstar if it goes unsold. This is especially true if the product in inventory becomes obsolete due to a new product release.

To better understand Tecstar's position, see what they have been buying (sales-in) compared to their sales activity (sales-out). Figure 6 shows Tecstar's sales-in, sales-out, and inventory levels over the last year. In this example, Tecstar has been working to lower their inventory over the year until the last month when their sales-in spiked compared to their sales-out. A few things are evident. First, their inventory is dropping, but it is still above target. Secondly, their sales-out has been getting smaller. What is the cause? Are they struggling to sell the product or is there another vendor now winning the business through Tecstar?

Looking back at figure 5, Nu Horizons – Asia typically has 2 to 3 weeks of inventory on hand. Again, based on the vendor's agreement with this partner, this may be too little inventory to support customers' needs. If a customer calls a partner and they do not have what they want in inventory, they will either go to another partner for the product or worse, choose a product from another vendor that Nu Horizons has in stock. By contacting Nu Horizons and discussing if they are willing to buy additional product to have on the shelf, this should generate sales for both Nu Horizons and the vendor.

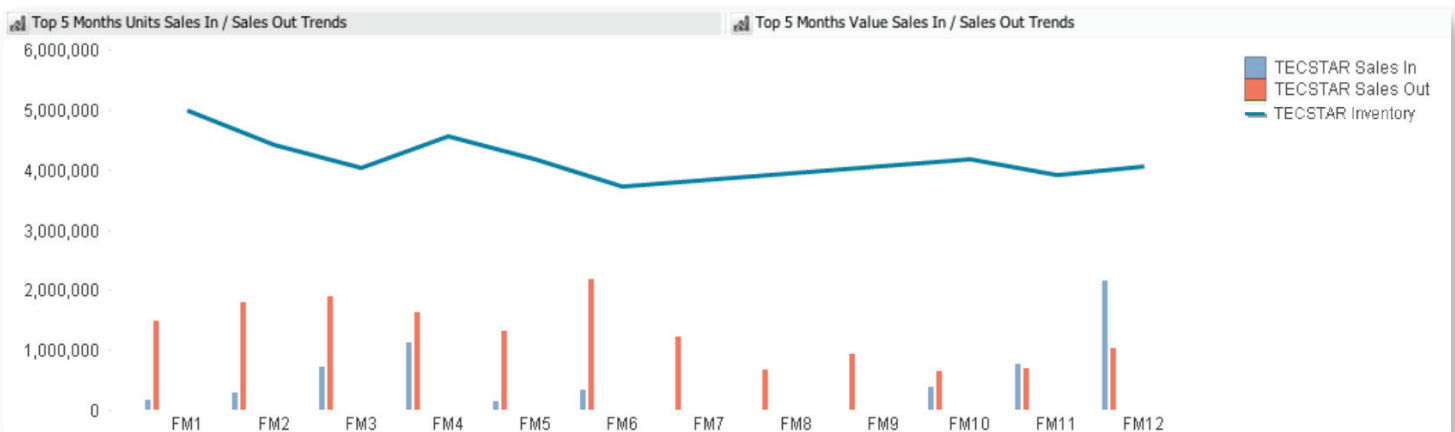


Figure 6: Sales-in, Sales-Out Trending Analysis

Identify process issues and grey market activity

One of the big benefits of collecting channel inventory data is that the information can be used to identify channel data management process issues and any partner grey market activity. Figure 7 shows the Channelinsight Inventory Variance screen. This feature automatically calculates the difference between what a partner reports to have in inventory for a specific SKU and what the vendor calculates they should have in inventory. Calculated inventory is derived by taking starting inventory, subtracting all sales-out, and then adding all sales-in. These two numbers should be close and a low variance should be seen. A high, positive variance can mean that the partner forgot to provide some POS data, forgot to report some customer returns, or that the partner has been buying product in the grey market. A high, negative variance can mean that there is missing sales-in data or that a drop ship from the vendor was missed in the calculation. Regardless of the reason for the variance, having this data is a good way to validate channel inventory and identify errors or nefarious behavior by the partner.

Increase Sales and Reduce Liability

By collecting and cleansing inventory data and then actively managing channel inventory, a channel management team can have a significant positive impact on channel results. Sales can be improved by getting partners to buy more inventory in order to support customers needs. Removing excess inventory from your partners can reduce liabilities. This inventory will not be returned in a stock rotation and does not have to be withheld against monthly or quarterly revenue. Managing channel inventory is a worthwhile return on your channel management investment.

The screenshot shows the Channelinsight web application interface. At the top, there is a navigation bar with options like HOME, DATA MANAGEMENT, EXCEPTION HANDLING, DISCOUNT MANAGER, INCENTIVE MANAGER, RESEARCH, SUBMISSION SCHEDULE, FILE UPLOAD, and ADMIN. Below this is a search section with a date range filter set to 2013-01-01 and 2013-07-26. The main area displays a table of results with columns for Partner Name, Product Name, SKU, Catalog Value, Last Trans. Date, Calc. End Invent..., Reported End In..., Variance Units, Variance Percent, Variance Valuat..., and Product Family. The table contains 13 rows of data, including items like Hybrid-(SMMM...), FireMan 250, ProScan 101-B, Hub Warranty, ScanMaster 200, Type N Female..., SuperHub 1010, AutoCollator 100, ProComp 5000, Passive VoIP A..., AutoFeeder 1000, Subscriber Ampl..., and Type N Male Po... The bottom of the screen shows pagination information: Page 1 of 1, Show 200 items, and 1 - 54 of 54 results in 0.06s.

Partner Name	Product Name	SKU	Catalog Value	Last Trans. Date	Calc. End Invent...	Reported End In...	Variance Units	Variance Percent	Variance Valuat...	Product Family
36 ANIXTER	Hybrid-(SMMM...	700011133	35	2013-06-15	-75	525	-600	800	-21000	Fiber Adapter
37 COMPUTE...	FireMan 250	138-89F92	149	2013-07-22	111	1	110	99	16390	Routers
38 BUY.COM I...	ProScan 101-B	11J8-41M16	450	2013-07-22	-25	6	-31	124	-13950	Scanners
39 COMPUTE...	Hub Warranty	0000-1242	99	2013-07-22	-106	2	-108	102	-10692	Hubs
40 COMPUTE...	ScanMaster 200	11J8-41M14	189	2013-07-22	-53	2	-55	104	-10395	Scanners
41 ANIXTER	Type N Female...	L4TNF-PSA	10	2013-06-15	0	1000	-1000		-10000	Coaxial Foam C
42 COMPUTE...	SuperHub 1010	138-89F87	85	2013-07-22	-102	2	-104	102	-8840	Hubs
43 COMPUTE...	AutoCollator 100	6578-9942	259	2013-07-22	-21	12	-33	157	-8547	Printer Accesso
44 BUY.COM I...	ProComp 5000	2549-9790	980	2013-07-22	10	2	8	80	7840	Desktop Compu
45 ANIXTER	Passive VoIP A...	CSAPDU...	95	2013-06-15	130	200	-70	-54	-6650	Subscriber Amp
46 COMPUTE...	AutoFeeder 1000	6578-9941	125	2013-07-22	-21	11	-32	152	-4000	Printer Accesso
47 ANIXTER	Subscriber Ampl...	SVA104PRS	105	2013-06-15	110	75	35	32	3675	Subscriber Amp
48 ANIXTER	Type N Male Po...	L4TNM-PSA	18	2013-06-15	290	425	-175	-70	-3150	Coaxial Foam C

Figure 7: Inventory Variance

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