

# BUSINESS PLUS

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Complimentary for EMA members

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# Arrrgh, out of stock!!

INTERNATIONAL TRADE  
BY NADA YOUNG



There is nothing more frustrating to an exporter than out-of-stock issues; having already jumped through six flaming hoops to get your product to market only to have your sales stymied because your product is out of stock.

Out-of-stock issues also have an indirect effect on sales. They can erode credibility with end customers who are forced to switch to another product and, more often than not, they will not switch back, provided the substitute is comparable in quality to yours.

The trouble with solving out-of-stock issues is that identifying the culprit is very hard to do when there are so many variables at play. This is particularly problematic for export businesses where the supply chain is significantly more complex and the brand owner is three steps removed from the point of purchase.

Exporters must manage a supply chain that takes into account their normal production cycles while also factoring in long shipping times (up to four weeks from New Zealand to Asia), lengthy customs clearance procedures, processing at their distributor's warehouse and finally, ground delivery to each customer with an open purchase order.

For many exporters, the preferred solution to managing long lead times is to get an ordering forecast locked in with the distribution partner and request that they hold sufficient stock to cover the lengthy

replenishment times.

## Challenges with forecasting stock levels

While this is a sensible approach it does have its challenges. The first is that predicting an accurate sales forecast is like trying to foretell the rise and fall of the stock market. There are just too many factors that influence the results.

Another issue is that few distributors want to hold excess inventory because it binds their cash flow and introduces the risk of expired goods.

Even if distributors do agree to hold more stock, they may find that they have a run on one SKU (distinctive stock keeping unit) but surplus of another. For cost efficiencies it's best to order in FCL (full container load) volumes, but if the distributor does this he will increase the surplus of the other non-performing SKUs, exacerbating his cash flow burden and running into expiry issues.

## Remedies

One possible remedy is to support the forecasting system with other measures to improve supply chain efficiencies. Perhaps MOQs (minimum order quantities) can be reduced to improve the flow of goods, or maybe transit times can be shortened by making use of a central distribution hub or a 3PL (third party logistics).

At the other end of the spectrum is a distributor who has plenty of



Someone's stock is missing at this PX Mart supermarket in Taipei, Taiwan.

inventory but, due to pressure points in their own supply chain, your brand is not available to the end customer. Some of the more systemic challenges can arise from such things as inconsistent delivery cycles from the distributor warehouse to the end consumer, but quite often it's a simple thing like the customer forgetting to reorder before the distributor runs out of stock.

Fixing systemic problems with distribution will be beyond the reach of the exporter, short of changing distributors, but there are usually ways in which you can help mitigate out-of-stock issues.

A good working relationship with your distribution partners, as well as an understanding of how their business works, will go a long way. In addition, it's a good idea to ensure you have visibility over your distribution in order to monitor out-of-stock instances.

The best way to achieve this is to be there, visiting with distributors, conducting spot checks across your sales channels and talking to your end customers as often as it takes.

**Nada Young is a director at Incite, an export development agency for food and beverage companies trading with Asia. Visit [www.exporthincite.com](http://www.exporthincite.com)**

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### Always more to learn

Ben grew up in a family with a history in manufacturing dating back to the 1960s.

He had 25 years of experience in importing, wholesaling and retailing before turning to e-commerce.

When asked what he likes about doing business with New Zealand manufacturers, Ben says he likes the speed, the honesty and trust.

"Manufactures are straight shooters: 'This is what I can do, this is the price, this is when I can deliver.' I am dealing with owners, not the sales guy taking me out for lunch."

Ben's advice to a business owner in their first year is: "Ask a lot of questions from experienced business people. Learn from mistakes. Every time I do a business deal I do it better than the last and I'm always learning."