Research Reports
Articles

The hockey stick syndrome

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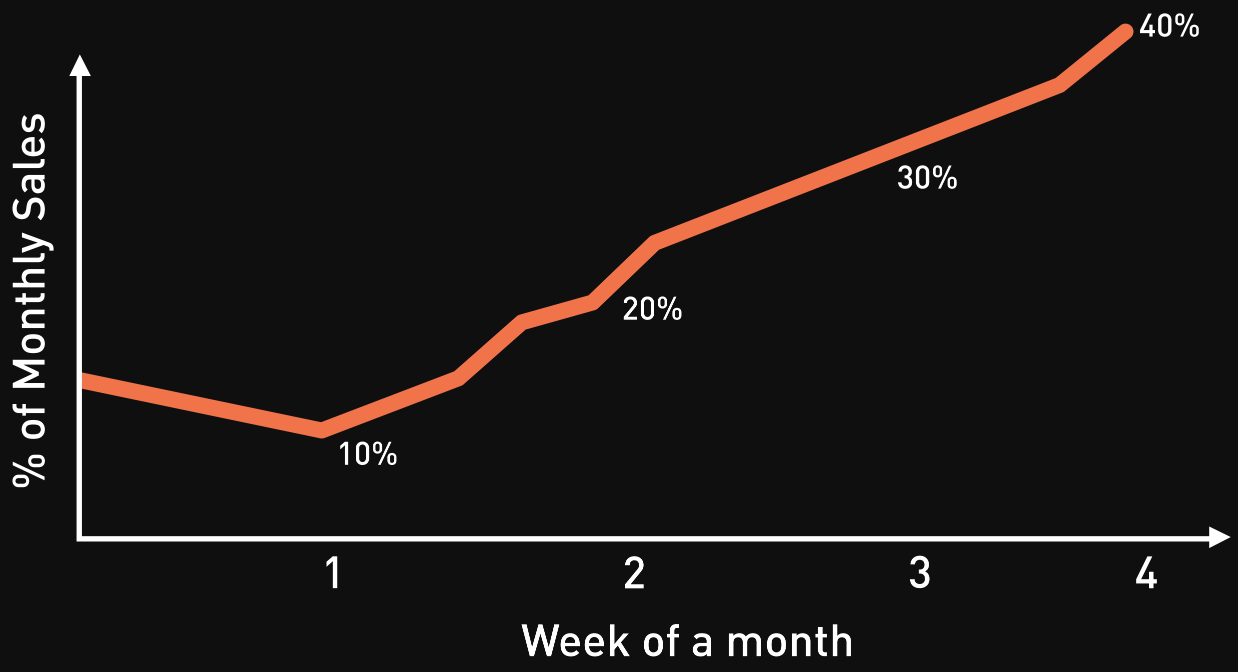

In distribution companies the sales are very high in the last week, usually 40%. The usual sales pattern is 10:20:30:40 over the four weeks (the ratios may vary from company to company but the pattern is more or less generic). This sales pattern is popularly described as the "Hockey Stick" sales syndrome and is accepted as a normal industry practice in distribution industry. So accepted is this practice that the internal processes and measurements in operations, distribution and sales are aligned to accommodate and reinforce this hockey stick! The only damage companies see with this syndrome is the high level of stocks the company has to carry. Else it is fine with them.

We claim that the hockey stick is hugely damaging in terms of lost sales and preventing faster growth of sales (even if the opportunity exists).

- Usually such companies have a monthly sales plan and an aligned production plan. Because about 40% of the sales happen in the last week, the production has to ensure that such a huge quantity is available in the regional warehouses / CFAs before the last week. This results in production happening in large batches. As the production batches increase, the lead time to produce any additional quantity also increases. So if the sales is more than forecasted for a distributor or regional warehouse it is next to impossible to supply the additional quantity to him as the plant is busy with its fixed production schedule and long lead times, resulting in lost sales. Unavailability leads to huge lost sales (not only that piece, but could also lead to loss of customer as he buys another brand. Se article 'Power of Availability' at www.vectorconsulting.in) products not being available when the customer wants.

- When the regional warehouse has unavailability, (due to either the distributor selling more than his ? forecast or the plant shifting material to other area to manage placement efficiency or delay in production) to meet his sales target, the sales person pushes whatever is available, increasing inventory of some items (of the distributor) well above the quantity planned. This results in blocking of capital of distributor for a period more than the month. Resultantly the capital available for buying fresh stock in the next month decreases, so he buys less (due to company credit limits) resulting in further lost sales. Alternatively the company relaxes the credit limit, which is a loss to the company, and there is a limit to which this can be done.

- As the capital gets blocked, the capital available for providing credit to the market decreases, and the distributor starts to restrict his supplies to only those retailers who are regular in payment. This results in unavailability at some shops leading to the customer switching to competitors brands. With usage and satisfaction spreads the word of how the competition brand is good / better. Thus the company could lose market share in a geographic area rapidly. (Unfortunately the distributor is blamed for this loss of market share, and not the company policies).

- If this continues, and if the company does not bail out the distributor (which comes at a cost) the distributor will collapse. The sales people consider such a distributor as an incapable and underperforming distributor and appoint another one, without realising that they themselves are the reason for his underperformance.

- With the hockey stick, the distributor has to carry atleast 45-60 days of stock to be safe in terms of ? availability of all his SKUs (he also has to protect his sales/ retain his customers). Due to this high stock, any urgent introduction of a changed product or promo (due to competition activity) is not possible. Either the company compensates the distributor to liquidate (faster) current stock at a discount, or the distributor takes a hit of being left with obsolete or near dead stock. His available capital further reduces because of the latter action, resulting in lesser buying and thereby lost sales.

- As the production is in large batches, the raw material is also procured in large batches, the WIP on the shop floor is also large, and the regional warehouses are accumulating stocks for the month end spike. As a result the plant and distribution has to carry more than 45-60 days of stock.

If it is so damaging, it needs to be eliminated. First step is to understand the root causes. No sales person wants to take the risk of selling 40% of his target in the last week, neither does the final consumer consume the items in the same pattern. So what are the causes for this month end spike and its continuation?

1. Distributors buy huge stocks in the last two weeks and these are sold over the next 3 to 4 weeks. If the payment terms are advance or payment on delivery, the distributors needs to have the cash to pay for the stock he wants to buy. This cash is accumulated as he sells the goods over the first 3 weeks of the month. Hence the buying of huge stocks at the end of the month. Even if the companies have credit periods, over a period of time with this practice, the distributors are always near the credit limits. Unless the credit limit is cleared, fresh supply is not allowed. So even with credit period, the money is blocked till the last week.
2. Knowing well that nearly 40% is sold in the last week, the production planning also plans for the material to be produced and dispatched to manage the availability in regional warehouse accordingly. As a matter of fact distribution is measured on placement efficiency (per week) aligned with the sales trends.
3. This cycle continues every month. To break this cycle requires changes in processes / policies in sales, distribution, production and procurement. This is mammoth task as each entity is being measured for efficiency in his silo. (We should not underestimate the power of inertia).

The solution

Break the cycle! It is well now understood now that the consumption at the retail does not happen in this pattern and the hockey stick is only because of the reasons listed above. Using this as the premise the solution can be devised. Let us add more stringent criteria to the possible solution, such as

- :Locking of capital of distributors is very damaging. In other words releasing capital of distributor will result in increase in sales as the distributor will always have cash to buy his stocked out items. So the solution should decrease the inventory to atleast half, but provide him 100% availability.
- The plant is able to address the emergencies from the market.

The inventory in the system (production and distribution) should decrease to atleast half the current levels.