



Stirring the Pot

Minimizing Your "Less than Minimum" Conundrum

Building Profit with Minimum Risk

You've got a Minimum Order Policy, right?

And you enforce it strictly, right?

Sure you do!

We've analyzed volume and Total Fulfillment Cost by shipment size for about 100 businesses over the years. And while every business is different, there are a couple of phenomena that are practically universal:

Small shipments, especially very small shipments, cost a lot more per pound or per case than large shipments

Manufacturers have a lot more "Less than Minimum" (LTM) volume than they think they do
....and way more ACTIVITY associated with filling those small orders than they want

Even after we scrub out sample shipments, "make good" shipments resulting from manufacturer stock-outs, and new customer exceptions the story remains the same: **Manufacturers spend a disproportionate amount of time and money generating small volume from LTM orders.** Or as a friend puts it, "laboring like an elephant to give birth to a mouse!" The results are often sobering.

So why do we do it?

Sales, Marketing and Customer Service people don't generally set out to violate company order policies, but they DO generally set out to keep every customer happy and to capture every possible sale. So over time, the "one-off exceptions" and "short-term concessions" accumulate like bugs on a windshield. And unless someone pulls over to scrub them off, they will drag down financial results.

There are at least three viable alternatives: Shift LTM orders to redistribution. Assuming your redi program is structured properly, you should save money by serving LTM orders via redi instead of directly.

Institute and strictly apply an "LTM Surcharge" policy. Add a fixed amount per order or per case and continue to fill these orders directly. There's nothing wrong with capturing the value inherent in providing small orders to customers who need them.

Stop taking LTM orders: If your customers won't buy from your redistributor, and balk at paying a surcharge, take a serious look at whether you're making any money on their business. No one likes to walk away from volume or turn down an order, but chances are you'll come out ahead if you do.

Is it that simple?

Yes and no. We find it best to analyze a year's worth of LTM orders, and place them in buckets. The large customer who generally follows the rules but asks for an occasional exception might be treated differently from the habitual offender. The new customer who was granted a 90 day exception but has 9 months of LTM orders might be treated differently from the customer who is quickly growing out of LTM territory.

The good news is, we can always find considerable savings opportunities and it only takes about two weeks.

If you suspect your company is caught in the Less than Minimum Conundrum, [click here](#) and let's talk about it.

Thanks for reading and we'll be back in touch soon!
Dave