



How Building Materials and Industrial Equipment Suppliers Can Use Special Orders to Address Supply Chain Challenges

This guide addresses how Building Materials and Industrial Equipment Suppliers can implement a Special Orders strategy to help address Supply Chain challenges

THE SUPPLY CHAIN CRISIS WON'T IMPROVE IN 2022

SPECIAL ORDERS AS A STRATEGY

Special orders are a departure from the traditional distribution business model of purchasing items from your established supplier, receiving these into inventory and then selling them to customers out of inventory. The key to the success of this model was in being able to purchase items into inventory in the correct quantities and then turning them quickly to generate your ROI. The Supply Chain Crisis which is not going away any time soon, has made this model challenging.

Unfortunately, with the current supply chain mess, your trusted supplier cannot get the goods you want, when you want them. Or your supplier delivers the goods FOB to a port in Asia, and they are stuck somewhere in the supply chain, on a vessel, in a port or railhead, and cannot be accessed. What can you do to cope? One thing you can do is to use more special orders. Special orders are sales orders linked to purchase orders, in which the sales orders are filled directly from the purchase orders and not from stock. You can also either drop-ship the goods directly from the supplier to the customer or receive and cross-dock the goods without handling or repackaging.

There are several advantages of a special orders strategy that allows you to: (1) diversify your supplier/vendor base, (2) improve the path through the supply chain, (3) reduce your handling costs, (4) reduce your investment in inventory and (5) solve a customer's need.

HOW SPECIAL ORDERS CAN HELP YOUR BUSINESS

DIVERSIFY YOUR SUPPLIERS

Most distributors used to rely on one or two trusted suppliers, but this is no longer practical given the Supply Chain Crisis. You need to diversify your base of suppliers. You don't need to implement special orders *per se* to do this, but it is easier to try out a new supplier with a single customer's order than to replenish your stock of a whole line of products through a new supplier. Many suppliers have made their catalogs and products accessible electronically. So, with a little research, it is now feasible to search for and source products over the Internet. You still need to prequalify suppliers, particularly if you want to drop-ship goods directly to your customers. However, you only need to prequalify them once or at worst occasionally. Then when you have identified potential new suppliers, you can use [RFQs \(Requests for Quote\)](#) to get the best product availability, pricing terms and expected delivery dates on the order.

IMPROVE THE PATH THROUGH THE SUPPLY CHAIN

Given its number of inputs and sensitivity to initial conditions, the global Supply Chain is an example of a chaotic system. Small changes can result in big perturbations and lead to unexpected outcomes or breakdowns. So, special orders that involve smaller purchase orders that can be placed on multiple suppliers in different geographies, have a better chance of getting through the

BENEFITS OF A SPECIAL ORDERS STRATEGY

IMPROVE THE PATH THROUGH THE SUPPLY CHAIN (CONT'D)

supply chain than a single much larger purchase order from a single vendor to replenish your inventory of a full line of products. In this way, a strategy to use special orders can help with macro supply chain problems. Also, if you can drop-ship, this cuts two steps out of the supply chain. Goods go directly from the supplier to the customer cutting out the steps of getting to your warehouse then going from your warehouse to the customer. With blockages everywhere, this can lead to a significant improvement in delivery times.

REDUCE HANDLING COSTS

Whether your special orders are drop-shipped or cross-docked, they will require much less handling than the traditional model of receiving into inventory. It is a significant amount of effort to track a purchase order for replenishment of a full line of products, clear it through customs, transport it to your warehouse, receive it, and put-away to shelves and bins, then pick, pack and ship the order to the customer. Even if you have a very efficient [purchase order management](#) and [warehouse management system](#), there are a lot of steps and the potential for human error, involved in this flow. The reduced handling needed for special orders can lead to real cost savings and, as a twofer, can also lead to reduced labor needs. Given the widespread labor shortages caused by the public policy responses to the Coronavirus pandemic this could be a big advantage.

BENEFITS OF A SPECIAL ORDERS STRATEGY (CONT'D)

REDUCE YOUR INVESTMENT IN INVENTORY

For distributors, the investment in inventory is the single biggest cost. Special orders mean that you can cut back on your investment in inventory and improve your ROI. Also, with skyrocketing inflation and the consequent uncertainty this creates for demand, you want to have a minimal investment in goods that may become hard to move if demand wanes. Special orders can help you to accomplish this. In addition, with special orders you can collect all or a portion of the sales price upfront as a deposit which will also improve your cashflow.

SOLVE YOUR CUSTOMERS' NEEDS

Your customers are aware of the Supply Chain Crisis. They'd prefer that you had the goods they need already on hand, but if Supply Chain problems have caused you not to have these goods, chances are that others likely won't have them either. Under these conditions, your customers will view your offer to special order goods for them as your being willing to go the extra mile for them. They'll likely value your willingness to be flexible and they'll likely be grateful. This is particularly true if you've already made the effort to research and prequalify multiple suppliers in different geographies and can speak knowledgeably about options.

WHAT YOU NEED TO IMPLEMENT A SPECIAL ORDERS STRATEGY

WHAT YOU NEED TO START USING SPECIAL ORDERS?

What do you need to start doing special orders? Most importantly you need [order management](#) and purchasing management software that gives you the tools for a special orders strategy. You need to be able to mark certain products as special order only and, on the fly, decide to special order items you normally carry in inventory. You need to be able to link every sales order line uniquely to a purchase order. You need to be able to place the purchase orders on your primary suppliers or easily on other suppliers on the fly. You need to be able to decide whether to have the goods delivered to your warehouse or drop-shipped and auto create the purchase orders just by processing the order. If you choose to take the order then source the goods, you need the ability to send RFQs to multiple suppliers and automatically pick the best combination of suppliers to fill the order based on price, terms, and product availability. You need to be able to easily edit the sales order and the linked purchase orders and preserve the linkage. You need the confirmation that the goods were drop-shipped to automatically prompt you to invoice the customer.

Contact us to demo [Accolent ERP](#) if your software doesn't already do all of this out-of-the box.



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