

Investing for Growth & Profitability

By Wayne Wilson

“Our sales aren’t growing.”

“Our costs are rising.”

“Our profit margins are shrinking.”

“We are losing business because of stock-outs.”

“My inventory is out of control!”

“We can’t afford to hire the number of people we need to run the business.”

“Our customers are asking for services that we can’t provide.”

“My software vendor is no longer supporting our application software.”

“Competitors are nipping at our heels!”

Is your company experiencing one or more of the above challenges? If so, you are not alone.

“Many . . . distributors are at a crossroads. They continue to experience declining and disappointing profits, returns on investment and assets, and yet they face the need to constantly do more to attract and hold their customers.”¹

Wholesale distributors are being squeezed by customer pricing and service pressures on the one hand and the increasing costs of running their own businesses on the other hand. According to the 2006 Hershey Industry Performance Analysis, **“the typical . . . distributor produces a pre-tax profit margin of just 0.5% and an ROA of 4%,”²** representing a 38% decline from the 0.8% pre-tax profit margin and 6.5% ROA reported for 2001.³

Factors leading to these poor operating results include:

- Changes in product mix and related supplier trade terms
- Rising operating costs including personnel, insurance, energy, and technology
- Greater numbers of SKUs carried in the warehouse

¹ Bob Gatty and Kit Dietz, “The Distributor Value Equation,” **Distribution Channels**, American Wholesale Marketers Association (AWMA), October 2006, found at http://www.awmanet.org/dc/dc_cover1006.html

² *Ibid.*

³ *Ibid.*

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- Growth in product categories not covering the basic costs to pick, pack and ship
- Rising competition based primarily on price
- Inability to apply “cost-to-serve” standards to all product categories⁴

Other root causes of poor operating results may include:

- Failure to recognize customer buying trends
- Misalignment between purchasing and sales departments
- Lengthy order to ship cycles
- Poor business processes
- Disorganized warehouses
- Misplaced inventory
- Unproductive labor
- Inefficient truck loading or delivery routes
- Old or outdated software which does not provide the information needed to make timely and effective decisions

Maintaining a high level of customer service while keeping order lead times short, operational costs down, and employee productivity high, often seem like conflicting goals. Failing to address these conditions, however, may result in the need for extensive management intervention in operations, last minute overtime to meet customer expectations, lost sales and higher costs.

A modern and efficient ERP⁵ software platform can go a long way toward helping wholesale distributors address these issues.

The power, functionality, and scalability of ERP software products, historically available only to the large scale distributor, are now available to the small- and medium-size distributor. While ERP software platforms come in a variety of sizes and configurations, they typically integrate the wholesaler’s key business processes and functions into a unified whole. Purchasing, sales order entry, order picking, truck loading, customer return processing, vendor reporting, financial statement preparation and management reporting work together seamlessly by relying on a standard set of processing functions and a common database.

RF⁶ bar code scanning can leverage ERP systems in the warehouse, and web and wireless based technologies can now extend core ERP systems from the back office to customers’ store locations and the distributor’s sales people out on the road.

⁴ *Ibid.*

⁵ Enterprise resource planning

⁶ Radio frequency

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Benefits of Deploying a Modern ERP Software Platform

Intelligent investment in technology for inventory planning and control and warehouse management can be a significant driver to improve the wholesale distributor's operating profitability.

A well-designed and smoothly operating ERP software platform can:

- **Enhance your customer service** and the value you provide to your customers by:
 - Minimizing stock outs
 - Shortening order to delivery cycles
 - Enabling self-service customer ordering
 - Offering customers web-based reporting of key information including inventory position and order status

- **Improve your profitability** by:
 - Decreasing customer service costs
 - Streamlining the purchasing process
 - Increasing inventory turns
 - Increasing picks per labor hour
 - Minimizing overtime

- **Provide the knowledge base** to:
 - Assess customer level profitability
 - Train sales personnel to focus on net margin by customer
 - Increase the focus on logistics efficiency

- **Provide the ability to increase sales without incurring incremental costs** by:
 - Identifying opportunities to add customers and products
 - Leveraging the time of buyers, sales people, and warehouse personnel
 - Utilizing warehouse space and delivery fleets more efficiently

ProfitPoint – Turning Inventory into Profit

TurningPoint Systems' **ProfitPoint** solution, for example, is designed to help you meet these growth and profitability challenges head on. With **ProfitPoint**, you're able to run your business more efficiently and profitably, keeping close tabs on every phase of the operation; from sales and returns; to inventory turns and warehouse space utilization; to pricing and customer/product profitability.

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With **ProfitPoint**, you'll know which products are moving, and what promotions are working, which customers are buying, what they are buying, and your resulting margins. **ProfitPoint** provides the detailed, up-to-the-minute information and reports you need to efficiently and profitably manage inventory, fill rates, and service levels. As a fully integrated system, **ProfitPoint** replaces error-prone, redundant data entry tasks with a single entry that drives the entire process from order entry— through picking, shipping, and replenishment —to financial accounting.

From the time the order is placed with the manufacturer, to the time the product is received by the customer, **ProfitPoint** manages the movement of inventory and financial information in real-time, thus meeting the needs of the small to medium-sized distributor. Its IBM iSeries platform has been extended to incorporate emerging technologies that generate efficiencies in the warehouse and automate processes between suppliers and customers.

Measuring Return on Investment

An effective ERP system should also make you money, not cost you money. For every \$1 invested in **ProfitPoint**, TurningPoint Systems' customer **Ohio Valley Wholesale** has seen a return of \$4.41.⁷

“Without the [ProfitPoint] software . . . we would have needed two more employees in purchasing, four in receiving and picking, returns and shipping confirmation, at an additional annual cost of \$265,000. . . . We really feel like we could grow in the next few years to \$200 million and the TurningPoint Systems software will grow with us,” confides Jim Glockner, President of Ohio Valley Wholesale.⁸

Let the distribution experts at TurningPoint Systems help you decide whether implementing a modern ERP system can improve your company's operating performance.

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⁷ TurningPoint Systems Quantifiable Case Study – Ohio Valley Wholesale at http://www.turningpointsystems.com/case-studies_white-papers.htm

⁸ *Ibid.*