

Extra! Extra!

Thriving in a down market takes some creative thinking, whether you're delivering electrical products or newspapers.



To create parity amongst its teams, the NFL has a salary cap that encourages players to shop around for other teams when their contracts expire and they are free agents. This makes it hard for championship teams to stockpile star players by lock-

ing them into expensive long-term contracts and gives other teams the chance to compete for their services. In essence, this process slows down a team's potential for long-term success unless the business aspect of the team is well managed.

In the electrical market, many dis-

tributors are all too willing to accept parity in a tough business environment. Don't do it. If you want to be more than a middling player in a down business year, distributors will need to add some new plays to their playbooks. This article will help.

Learn from your newspaper delivery guy. Reducing costs while increasing sales to existing customers

By Allen Ray and David Gordon

is the goal of any businessperson. Many times all it takes is some ingenuity, a desire for more business, asking the right questions and a willingness to learn from other businesses outside the electrical industry.

For instance, we recently learned about a local newspaper delivery person who increased sales and reduced costs by utilizing some business strategies that can work in the electrical market.

Delivery people function as independent contractors for local newspapers. These delivery people have defined territories, and to service them they order the number of papers they need, buy plastic bags, stuff the newspapers into the bags and then use their own gas to deliver these bagged newspapers, throwing them onto your driveway or lawn. Some deliver more than one newspaper. For instance, if you receive the *Wall Street Journal* (WSJ) at home, you order it directly from the WSJ and those local newspaper delivery people may also deliver that newspaper, too, for a nominal fee to the WSJ. It also provides bonuses for route salespeople who sell subscriptions.

If these delivery people want to increase their sales, it requires additional market penetration and account penetration. Sound familiar? Operational expenses are gas and plastic bags, and inventory is “remaining” local newspapers. They consider delivering the WSJ a bonus. While there is the incremental cost of an additional plastic bag, there is no incremental delivery transportation cost, because they still have to drive to your home or office to deliver that local newspaper.

This local delivery person noticed these operational expenses were increasing. Gas in his area was headed to \$3.45 per gallon and oil was approaching \$100 per barrel. He saw that his operational expenses (gas and plastic bags) were increasing and asked himself, “How can I reduce my costs and sell more newspapers to generate incremental revenue for the same route?”

To reduce his costs, he decided to put the local newspaper and the WSJ in one bag, thereby reducing the number of plastic bags he needed to purchase and stuff. Then he thought about how many of his customers subscribed to both newspapers. Like many electrical salespeople, he felt he knew his customers. But he had never quantified potential additional selling opportunities. He developed a plan to sell additional local newspapers to WSJ subscribers and WSJs to local subscribers.

monthly delivery revenue from WSJ. He also became more efficient (throwing two newspapers at once) and increased his income.

The lesson here is that distributors can also help their salespeople find out what additional products they might be able to sell to existing customers and identify complementary products not being adequately sold. This information is available in distributors’ computer systems. From a financial viewpoint, this effort could increase your net profit

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The local newspaper helped him quantify exactly where he was delivering the *Wall Street Journal*. The first query was for people who subscribed to the local paper at their home but received their WSJ at their office (costing him additional gas). The next query was for people who received the WSJ at home and did not subscribe to the local paper (a sales opportunity). His objective was to convince the first group of customers to consolidate their papers to receive both the WSJ and the local paper at their home. The benefit to the customer was receiving the WSJ earlier. The second group represented an “upsell” opportunity. His goal for this audience was to have them subscribe to the local newspaper.

In both scenarios, he was able to consolidate deliveries, saving plastic bags and gas. Additionally, he gained 34 WSJ home subscriptions and 75 local newspaper subscriptions, thereby increasing sales. For doing this, he earned a one-time bonus for the new WSJ subscribers, and increased his

by more than 20 percent.

Assume your average order size is \$278, you sell 3.2 line-items per invoice and your gross margin is 22 percent. From an operational viewpoint, you are a “typical” distributor-member of the National Association of Electrical Distributors (NAED), St. Louis, as defined by its PAR (Performance Analysis Report).

If you can sell one more line item at your average sale per line-item, once every three orders, your net profit can increase by 38.3 percent. The key is understanding your customer-specific product mix.

Tweak your operations. During a slowdown, few distributors are willing to invest in major technology projects. The paybacks are typically too long and your staff’s productivity declines. But there are technology enhancements that can quickly generate incremental profits. Asking yourself the following questions may lead to some new profit opportunities:

Does my ERP provider offer the ca-

ability or a module to have two levels of costs in the system? A recent conversation with a distributor seeking this capability revealed that the ERP provider did not have this function in its current version (it's *supposedly* in the next upgrade) but could provide it in a module. The cost — \$7,000. Could you make a business argument that a \$7,000 investment would generate incremental profits if not all costs were shared with all salespeople?

With the increase in fuel costs, should I invest in a delivery routing system to optimize your delivery schedule? According to Stacey Pandeloglou, Distribution Technology Group, when you add up the total costs to keep a truck on the road — driver salary, benefits, liability insurance, truck lease, maintenance and fuel — the cost on average is \$40 to \$45 per hour or \$85,000 to \$100,000 per year. In addition to cost savings and operational benefits, customer service can also be improved.

Should I consider variable digital printing? This means every mailing piece you send can be personalized to your customer, and you can even vary the product or promotional offering. It costs a little more than offset printing, but sales results are typically significantly better. Personalization could be at the customer level or at a segment level, depending upon the quality of your customer database.

If I outsourced my billing, how much would I save? Outsourcing of this function may provide an additional value-added to your customer, reduce your DSOs (days sales outstanding), decrease internal expenses and improve productivity.

Do my salespeople receive a quarterly exception report that shows which of these customers are down more than 10 percent from the prior quarter and the same time period last year? This report can be an early warning sign. Better to know why business is down than to find out that you have lost it to a competitor.

Have I asked my ERP provider for the top five modules being used and what

system features are under-utilized? Also consider asking your distributor peers what system features they use.

Control your inventory. During a slowdown, managing inventory is essential. Good times mask many evils and inventory growth is one of them. Consider the plight of a Midwest distributor. He runs a \$100 million-plus company and estimates that it should carry \$10 million in inventory. Profitability was pretty good until recently. They will close 2007 with net profit in the low \$100 thousands. The company's inventory today is about \$18 million — almost double his estimate for what he says he needs. Some of the increase is due to a sales effort, but more than half of the inventory is excess.

Inventory issues range from properly utilizing your ERP system's functionality to realizing that historical purchasing patterns change during slowdowns. Unfortunately, some distributors purchase ERP systems and fail to activate all of the measuring capabilities that help track inventory replenishment needs such as setting min/max levels and the ability to match assembly parts. In fact, recent research indicates that approximately 27 percent of distributors do not activate basic inventory metrics resident in their systems. Enabling the system to track inventory frees up your purchasing department's time and allows them to concentrate on key product categories and supplier negotiations. It normally takes a minimal amount of consulting time from your ERP provider to rectify this situation.

In the early stages of an economic slowdown, distributors' inventories have a tendency to expand. Product velocity changes, and with the lag in projections, additional inventory is ordered. During a slowdown, it takes longer to sell the same quantity than it did six to nine months ago, and with manufacturers' delivery systems better than ever, product may be only a phone call away. To reduce opportunities for sales to bloat your inventory, institute an approval process for non-stock sales

ordering that generates any excess inventory due to minimum order size from a factory. Also ask yourself these questions:

■ Should my inventory reorder points be reviewed?

■ Are yesterday's "A" items today's "A" items? Has the product mix changed?

■ Has my product ordering for my top 10 customers changed? How does this impact inventory?

With commodity pricing being influenced by Wall Street, speculating and advanced buying can be dangerous. Being "thin" may save money. Alternatively, if you market yourself as the inventory leader, make sure all customers in your marketplace know that you can satisfy their needs. Sales, marketing and purchasing need to be on the same page.

If you do not actively manage your inventory during a slowdown, you risk the possibility of carrying excess and possibly obsolete inventory without even knowing it. Cycle counting helps, as does "management by walking around." A fresh pair of eyes will be more likely to question why some boxes have dust an inch thick and are hidden in the darkest corner of the warehouse. Reducing your inventory also enables you to better manage your inventory financing.

While inventory is one of a distributor's largest assets, it's important to watch turns and GMROI (gross margin return on investment) on your major lines. Hold salespeople and purchasing accountable for the right inventory.

Plan your training strategy. Distributors are bombarded daily with offers to train their personnel. According to our 2008 ElectroIndustry survey, distributor training is one of the top five priorities for manufacturers in 2008.

Industry associations, third parties and manufacturers offer training. Each cover a portion of the training that a distributor should offer. The Internet provides a wealth of opportunities to facilitate training. For instance, NAED

offers many online training courses, and BlueVolt, Portland, Ore., offers more than 2,000 online courses tailored to the electrical industry and has more than 30,000 users. At IMARK Group, Oxon Hill, Md., IMARKU, powered by BlueVolt, has approximately 100 customized manufacturer training programs. IMARK members have logged on for more than 57,000 online training sessions.

Be it the Internet, factory training, lunch-and-learns, CD/DVDs, workbooks, seminars or other venues, a proactive approach to training your staff can improve their productivity and improve your gross-profit dollars per employee.

more efficient distributors have their drivers manage the packing of the vehicle. Why? Drivers know where they are going and in what order, so they pack for ease and efficiency. Consider that UPS route driver pack their own trucks.

Customer intimacy. During a slowdown, many companies instinctively scale back their marketing efforts, providing an advantage to their competition. Research shows that aggressively marketing during downturns enables companies to grow during these periods and accelerates success when the economy rebounds. One client calls this “selling through a downturn.”

This works when your competitors

■ Utilizing direct marketing to increase sales to house accounts.

■ Testing underserved market segments such as the institutional market.

Marketing can be one of your most cost-effective means to retaining, and driving business. With manufacturers subsidizing distributor marketing with co-op, business development, market development, sampling, training, factory tours, additional off-invoice discounts, material allowances and more, and distributors allocating 0.25 percent to 0.5 percent of their revenues to marketing, the payback can be significant.

Additionally, consider educating, and managing, your people to ask probing questions to better understand customers' needs. On a bi-weekly basis, gather pertinent information to identify

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Reconsider how you route and pack your trucks. Remember our newspaper delivery person. One of his tricks for improved profitability was that he packed his newspapers more efficiently (less plastic bags) in such a way that he delivered more for the same cost and increased the number of products he sold.

Fuel costs to operate delivery vehicles rose, on average, 22 cents per gallon versus 2007 and 50 cents per gallon since 2005, according to *The Wall Street Journal*. Some distributors measure fuel costs as a percentage of profit dollars delivered and actively seek ways to either deliver more for the same percentage or reduce fuel costs.

Yet when distributors are asked if they know what they pay their drivers and where each driver travels each day, more than 40 percent of the respondents in our surveys say they have higher-priced employees driving the “general route” of their choice. For many distributors, warehouse employees who may or may not know the truck's route are the employees that pack the trucks. Other potentially

pull back their operations, because customers want to know their suppliers are positioning for growth. Additionally, reducing your visibility makes it more difficult for your customers to think about you.

Now is the time to get closer to your customers to better understand what they need, what their customers need and how you can help them be more effective and profitable. In slow times, research, customer councils and customer interviewing enables you to identify profitable niches. In a relationship business, you want to be more than a product provider. Some strategies to consider are:

■ Cross-promotional marketing strategies that incorporate multiple suppliers.

■ A mid-year incentive program based upon tiered or incremental performance.

■ Sampling strategies to support new product launches.

■ Developing a preferred customer strategy that provides special offers. This could incorporate an e-newsletter with pricing specials.

market trends.

Conclusion. Don't settle for parity. Now is the time to identify methods to reduce operational expenses, better manage your assets and implement strategies to grow the business. In every marketplace, there will be winners, losers and companies that play in the middle. To win in a slow market, better information, targeting resources and execution are keys to success. ■

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