



Contractor Paper Trail Grows and What You Can Do About It

Or, How To Drive Costs Out of Your Receivables Process While Improving Customer Satisfaction and Profitability

Distributors for years operated on the premise that they would buy hard goods in bulk, break them into smaller quantities and add credit and customer service to generate value and profits. Many did not realize that they should have also invested in paper as they were, and continue, to distribute bales of paper, envelopes and postage stamps!

Distributors realized that they needed to improve their profitability and become more efficient. They invested in ERP software systems to run their businesses, track inventory, process orders and generate invoices. While significant efficiencies have been achieved, many haven't realized that they inadvertently became further vested in the paper business (so much for the paperless society!). While much of this is due to customer demand, a growing number of customers are seeking to migrate from the paper age and are looking for willing distributors to help.

Distributors entered the paper business because they "needed" to get invoices into customer's hands the day the product left the store. Reasons ranged from a thought process of "if I invoice earlier maybe I'll get paid earlier" to a need to protect a legal claim. Distributors ordered pallets of preprinted forms and lots of ink toner. Some heeded legal advice to also send a duplicate copy of all invoices with monthly statements, doubling their paper investments (not to mention labor costs.) Some send statements and invoices twice a month. Distributors are becoming more "efficient" as 47.2% of distributors are faxing some invoices and 36.1% were emailing invoices to some customers. The survey revealed that distributors

use multiple dissemination processes, confirming a belief that distributors need different systems for different customers.

Recent distributor and contractor research conducted by Allen Ray Associates and Channel Marketing Group revealed that contractors and distributors are awakening to the amount of paper (invoices, submittals, statements, faxes, printed emails and etc.) generated through their relationship and are seeking ways to reduce and streamline their businesses, adding dollars to the bottom-line for both parties.

To provide a frame of reference, consider the paper trail of a \$6 million contractor who may purchase \$1.5 - \$2 million in electrical products. This contractor typically receives 100-500 invoices (or variations of same) per month from his distributors. This paper trail excludes bid quotes, product submittals, faxes, emails, proof of deliveries and other daily transactions. Consider that many contractors work with 5-8 distributors, receiving 60+ invoices / distributor each month, depending upon their volume and frequency of purchases, and watch the paper trail grow. And this assumes a 100% fill rate and no errors! It is no wonder that contractors and distributors are drowning in paper and that the average cost of servicing an account is high.

Over the past few years, a growing number of contractors and distributors partnered to establish contract pricing for commodity groups or for defined market baskets. The hope was that there would be a reduction of paper, negotiating time, and error management spent by both sides (not to mention an increase in purchases!). But wrong item shipments, wrong quantities, incorrect pricing and other errors continue to plague these relationships, albeit less frequently. The desired goal of more profitable relationships through less transactional errors has not fully been realized.

Leading distributors are responding by offering contractors alternatives. Some created protected web sites where customers can pull down their invoices, packing and delivery slips, proof of



deliveries and more. While web sites with protected, customer-specific data are a good first response, there are additional alternatives that progressive contractors are starting to request. This includes the desire to download, or have pushed to them, electronic files that can link up or be imported into their accounting packages.

Bid Prices vs. day to day prices

The contractor research showed that a number of contractors have adopted processes to manage and pay a significant number of invoices by using specific job and PO or contract pricing. In some instances these contractors have developed a trusting relationship with some of their distributors to enable them to manage their payables based on a pre-determined tolerance level, or exception, basis. This allows them to focus on major problems and streamline operations, generating increased employee productivity. For some contractors the natural next step is to pay electronically using e-checks or in rare instances, wire transfers. For a complete overview of the contractor research, see the October issue of *Electrical Wholesaling* or visit www.ewweb.com.

A Hidden Issue

Surveying distributors about their electronic connectivity status proved to be a challenge. Many didn't want to expose that they do not provide contractors any e-invoicing service, some didn't understand the topic / questions and others fully understood the topic and didn't want to share their successes. And perhaps more importantly we heard "I don't see my customers asking me for this, so why should I make the investment?"

Survey Results

The responses we received, however, were from distributors across the country, representing every volume range, however, commercially-oriented contractor houses responses were more prevalent.

Distributors were asked to comment on their receivable challenges as well as the state of their e-business relationships with their customers.

In considering their receivables status, as expected, distributors responded that their customers pay them based upon:

- A need to free up credit with the distributor
- Based upon the relationship with they have with the distributor salesperson and the distributorship

In considering receivables, 18.9% had receivables less than 41 days old; 24.3% of distributors had DSOs (Daily Sales Outstanding) of 41-45 days and 32.4% had receivables that were more than 57 days old. Interestingly, when distributors were asked why they were not paid on an as timely basis versus competitors the answer was "I don't know." Obviously those distributors with two-plus month old receivables, unless they are receiving finance fees, have a profit drain.

"The ones that get the relationship"

Interviewed distributors who are offering some type of electronic connectivity that includes invoicing, admit that some of their contractor customers are 'more' aware (read loyal) and are willing to work with them. One distributor says "Our weekly 'collection calls' and threats to cut off deliveries, are now met with, in some cases, early payment, but more realistic care of their account. We are finding that our customer is bringing us into the design phase and in fact giving us a chance to order special ordered items early (without the rush-rush time constraints,)'". The quality of the business relationship has matured to the point of mutual respect and problem solving instead of always asking us for a lower price. The key for this relationship was that we examined their need for being able to import seamlessly into their accounting package every night."

For some distributors and their customers, a trust factor develops over time. This trust factor allows



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the distributor and the contractor to relax traditional barriers to a point where mutual opportunities to help each other create electronic efficiencies can be explored.

And not only can efficiencies be achieved, but distributors who are integrated with their customers report that their revenue with 'connected' contractors has increased since they were connected. This results in more through-put and greater profitability.

An additional benefit that can accrue is that the distributor more easily can review the customer's usage data, allowing them to better service their customer with the potential to reduce the number of wrong items shipped resulting in "zero stock outs" for these customers. One distributor commented that they now receive quarterly product forecasts from a few customers. The distributor is passing this information upstream to selected manufacturers.

Another advantage of a bilateral electronic relationship is that many commercial issues can be addressed prior to "connecting" the companies. Since both companies benefit from the connection, and have the same goal, there is a greater willingness to address traditional operational challenges such as:

1. Pricing for certain items and setting parameters for price changes
2. When and how product substitutions are acceptable.
3. Proof of delivery
4. Agreement on payment terms
5. Electronic payment terms and penalties.
6. Return goods policies for stock and project needs.
7. Store room policy
8. % of stock-out allowed and a charge-back penalties to the distributor.
9. Backup of electronic documents
10. Product specification submittal and approval processes.
11. Bid priority
12. Quoted project price assurance.

In researching e-invoicing, we found multiple definitions. For distributors, e-invoicing can range from providing Excel files to EDI, from downloading invoices from a distributor website to providing ASCII files. In fact, the four most prominent distributor offerings, each offered by more than 43% of respondents, are:

- EDI
- Excel file formatted for the customer
- Ability to download from website and print
- ASCII, flat file, or text format

Distributors who offer these services are finding that no "one size fits all" and that they must offer a variety of options. The accompanying chart shows the percentage of customers who are utilizing each service, Notice the percentage of contractors who are downloading files (.pdf or electronic). We also found that national chains more frequently have these capabilities than independent distributors with WESCO and Graybar being most frequently mentioned as distributors with e-invoicing capabilities.

However, from a contractor viewpoint, based upon our survey of them, e-invoicing is being able to receive (via push or download) an electronic file that effortlessly integrates into the contractor's accounting package (which in many instances is QuickBooks.)

And this is where the disconnect frequently occurs. Most distributors state that they do/can do electronic invoicing, however, they consider e-invoicing

1. Scanning the invoice into a .pdf and either emails it as an attachment, via Outlook, so that the contractor can save and store it outside of their accounting package or
2. Converts their ERP file output to an Excel or Adobe pdf. They then post it to their website and provide the contractor with a user name and password. The contractor has to print or save the file and cannot import it into his accounting package.



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The seamless integration into the contractor's accounting system is where traction takes place, and the resulting benefits, can be significant. This connectivity is the key to reducing the paper flow and building operational trust with your contractors.

To safeguard the system, by using a common, importable file format where content cannot be changed, neither party can question the integrity of the data as it moves from system to system (human entry creates the opportunity for changes!) Only what was invoiced, charged and delivered is disputable. System errors are eliminated.

Once inside the contractor's accounting package, the contractor can still dispute items, but they can also match them electronically against PO's and then decide how much to pay, and when, to pay. If the contractor runs a "tolerance" test on a sample of items and or extends totals electronically in his computer, they have now replaced the most labor intensive functions in their back office, and eliminated much of the paper trail (and trips to Staples or Office Depot!) Most accounting packages have a function called "an audit trail" that shows who has done what to anything in the program and can provide the necessary "checks and balances".

The survey and interviews revealed that younger contractors have a much greater comfort level with what their software is capable of doing. We refer to this as they 'electronic confidence factor'. The same term can also refer to larger contractors who have higher levels of computer literacy and operational sophistication.

Conclusions

With the various industry initiatives to drive cost out of the channel, our survey and resulting interviews showed that not much attention has been paid to the customer side of the business.

Yes there was much noise during the dot com phase, but the timing was wrong. While some may mention that IDEA initiatives with data and price synchronization must occur first (and it should), the fact is that distributors are currently

invoicing their customers. Progressive contractors are seeking a different invoice delivery system. And the benefits can be significant for both parties.

It may seem like a simple task to ask your customer what you can offer them in the way of electronic connectivity to reduce their operational costs and better serve them (while providing benefits to you), but it appears that many distributors do not recognize the opportunity, especially with their larger customers.

Is this type of electronic connectivity the right delivery vehicle for all your customers? No. To be effective, you need to identify the right partners and ask them if they are interested. This isn't a sales call, this is conversation between business people. Just like all distribution companies are not created equal, neither are your customers and their electronic capabilities.

- For this to work well for you, you must have accurate pricing for that customer. This means that your matrix pricing, if you use it, must match the price that you told them. If you do not use matrix pricing then whatever you consider your 'cost' must be correct before you engage in an e-relationship. If you do not review your costs at least every 6 months, then this is necessary before you consider an e-invoicing relationship.
- Trust and mutual respect are key ingredients between both parties for you to move toward connectivity.
- If you have had credit issues with the customer before, then there might not be an opportunity for this connectivity, unless there are extenuating circumstances.
- The way you evaluate your customer will more than likely determine the success of a relationship. If you detect that the customer does not respect the fact that there are certain costs to doing business, then it is difficult to create a value-based relationship versus a transactional, price-driven relationship.
- Obviously there has to be certain level of existing business to justify the time

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investment or a significant potential to grow the business.

- If this is about your customer getting the lower price every time, don't kid yourself; you will not always be low. If you are, you are probably too low and are missing profit opportunities.
- Don't assume once the system is in place it is on "auto-pilot". Like anything with an important customer, it is important to periodically review the system to ensure customer satisfaction.
- Once you have implemented a few relationships, consider how to introduce a variety of invoicing options to your customers. The more that move to e-invoicing and other electronic means, the lower your accounting and office supply costs and the greater your customer satisfaction, customer integration and ability to capture business will be.

A final word of caution. Don't let your salespeople step into the middle of electronic connectivity without understanding the business discussion. If your salesperson is threaten by technology, then you should consider other alternatives.

Electronic connectivity can be mutually beneficial for you and your customer. There is much to gain. The contractor gains productivity and a easier way of storing history. You gain a simpler invoice delivery system, the potential of getting paid sooner and if it results in electronic payment, less collection hassles and bank charges as well as a strong loyalty initiative to help you retain and grow your market share.

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