

# Optimizing Distributor Profitability





## Overview and Need

*Delivered the tools we can use to optimize shareholder value. A picture is worth 1,000 words and A&M's Distributor Profitability Framework chart is worth 100,000 words!*

*- Ron Cedruly, CFO, Henrietta Building Supplies*

Distributors are being confronted with increasingly difficult challenges. Rapidly changing customer expectations, increased margin pressure, more aggressive competition, increasingly necessary IT modifications required for meeting customer needs, and other complex logistical problems are all forcing distributors to cut costs, optimize resource usage, and improve customer service.

To address these challenges, distributors have been implementing new policies and technology, but have not always reaped the expected financial benefits. The solution to this problem lies in establishing the connection between best practices and shareholder value.

By utilizing a systematic framework which connects business processes to financial metrics, distributors can identify and

prioritize process improvement projects which contribute to their strategic and financial goals. In order to connect processes to financial metrics, distributors should first perform a process assessment, then compare their own practices with research-informed best practices, then use the framework to quantify potential financial improvements. From there, they can make informed decisions regarding which projects and policy changes will yield the greatest increase in profitability.

## Methodology

The research team will execute the project in 3 phases as illustrated in Figure 1, below:

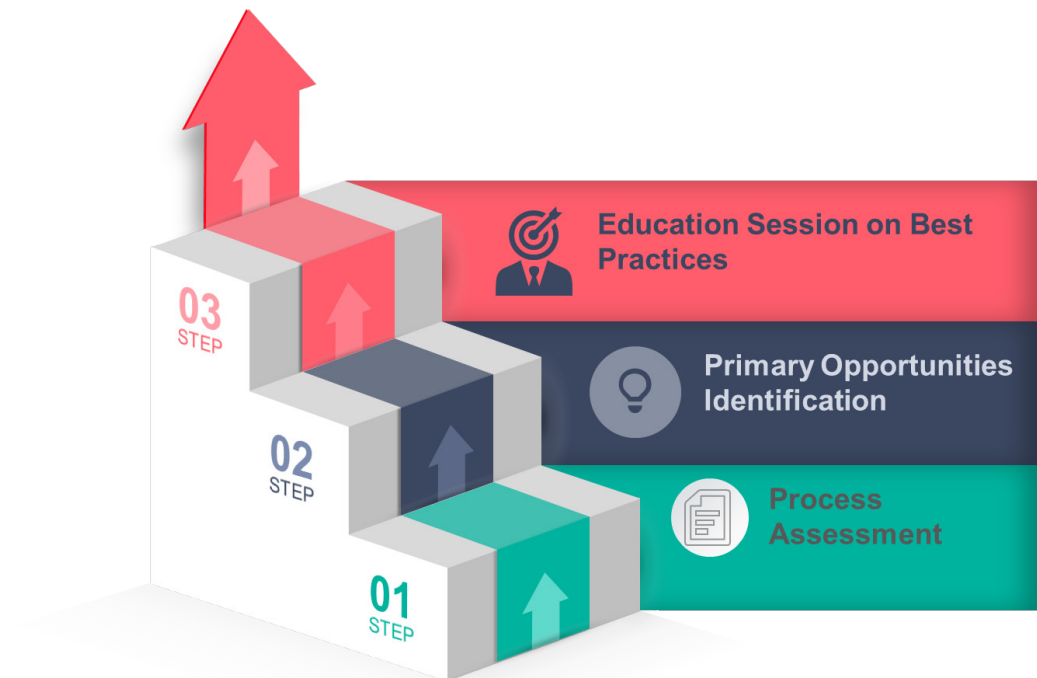


Figure 1: Project Phase

### Phase 1 - Process Assessment:

The research team will conduct a two day workshop in order to collect the necessary information for assessment of "7 S" process groups listed in Figure 2, below. The objective of the assessment is to identify and analyze process improvement opportunities related to the company's "7 S" processes:

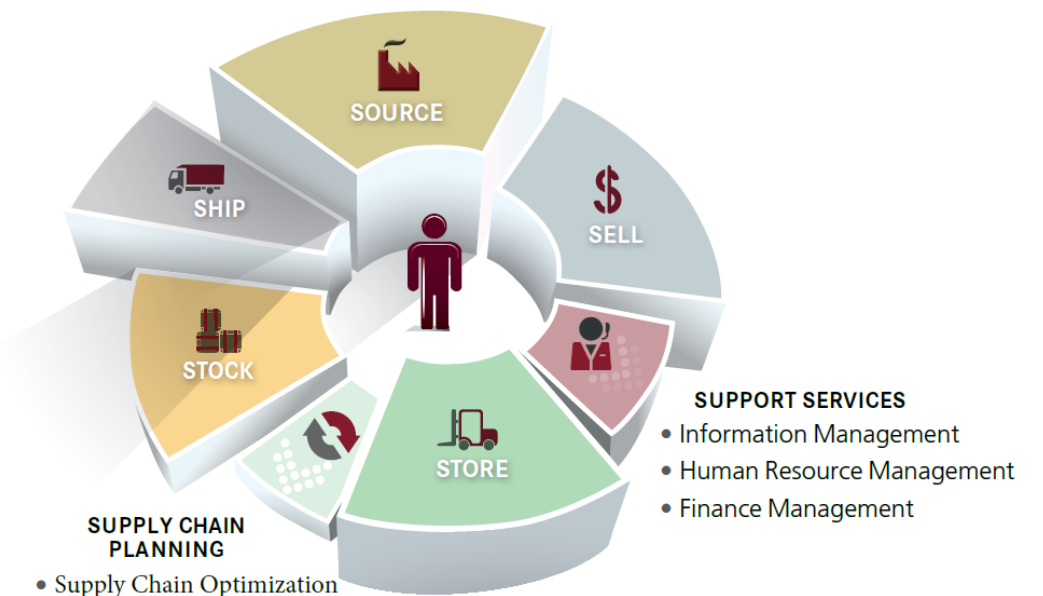


Figure 2: "7 S" Process Group

The assessment will utilize the Optimizing Distributor Profitability methodology developed by Texas A&M. Based on your company's requirements and input, modifications will be made to the assessment criteria.

### DISTRIBUTOR PROFITABILITY FRAMEWORK

Linking Business Processes and Shareholder Value

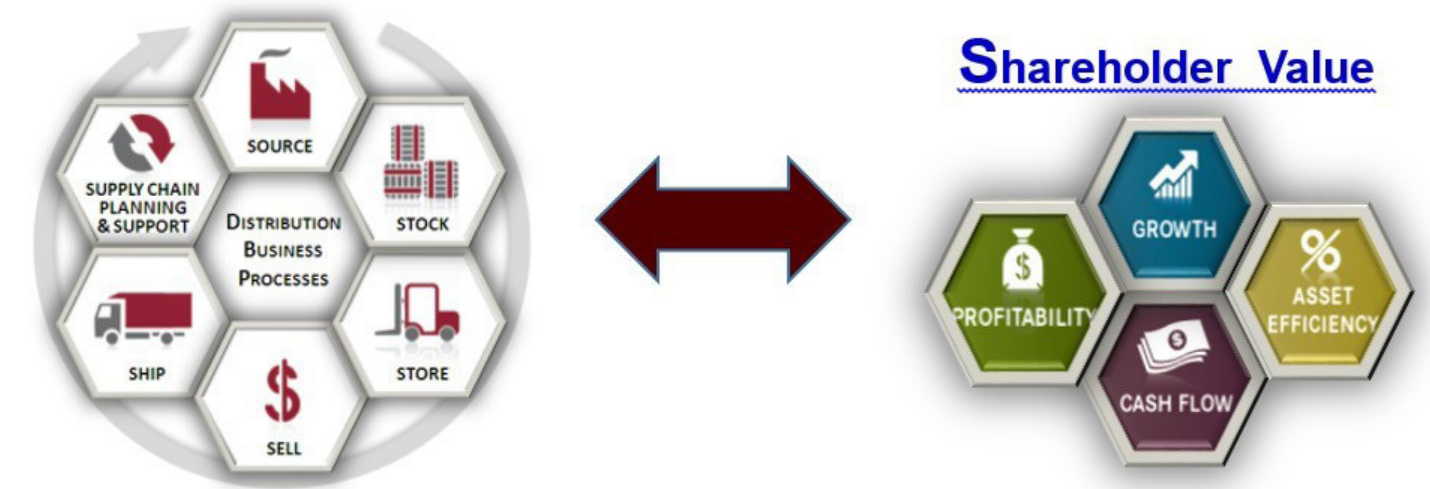


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Figure 3: Optimizing Distributor Profitability Framework

### Phase 2 – Primary Opportunity Identification:

This detailed identification process will highlight the performance gaps present in your firm's of processes, and their effects on profitability. The team will also assist your company in understanding the importance of that gap by illustrating the links between certain business processes and shareholder value.



### Phase 3 – Educational Workshop

The results of the analysis, along with recommendations, will be presented to executive leadership in a 1-day educational workshop. The workshop will also feature hands-on exercises and group discussion relevant to the findings of the analysis.

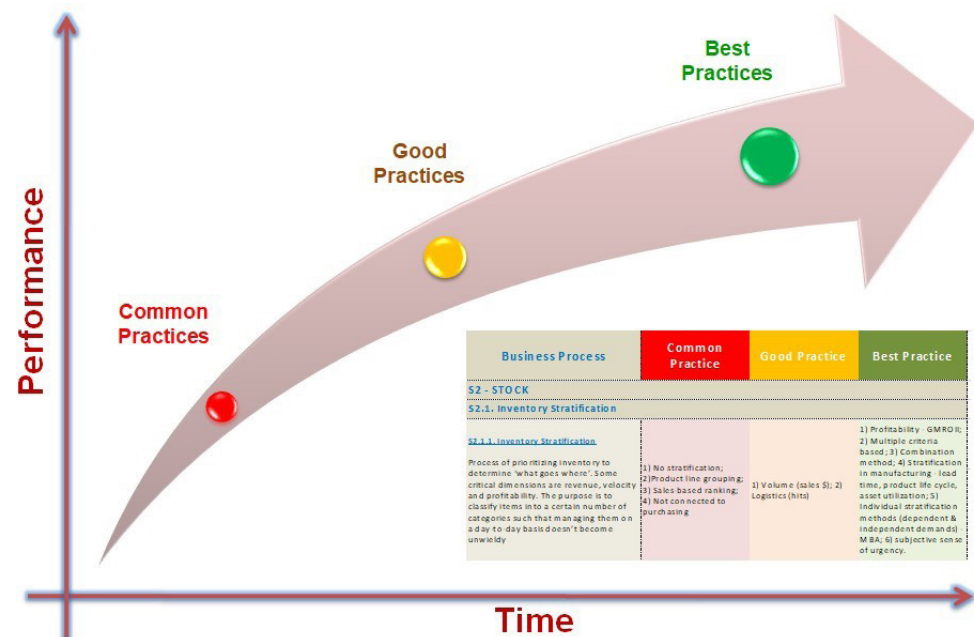


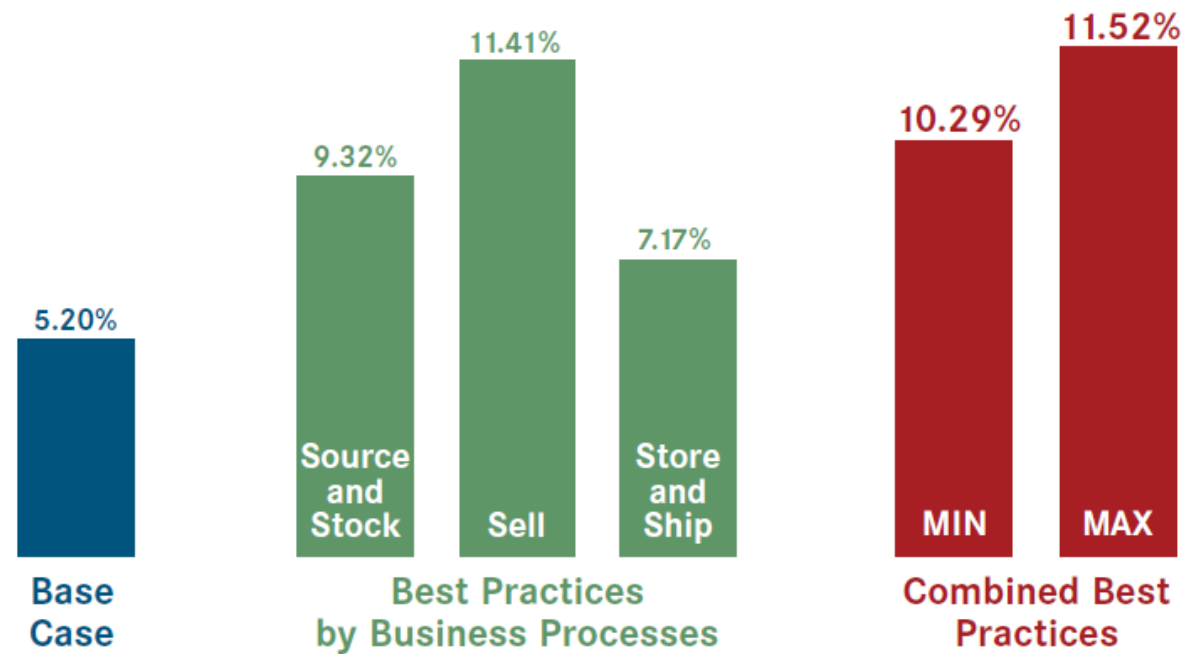
Figure 4: Sample Process Assessment Template

Distribution Business Processes	Assessment			
	Common	Good	Best	Not Applicable
<b>S1 Source</b>				
<b>1.1 Supplier Management</b>				
1.1.1 Supplier Selection	●			
1.1.2 Supplier Performance Assessment		●		
1.1.3 Supplier Stratification	●			
1.1.4 Supplier Relationship Strategy			●	
1.1.5 Right Number of Suppliers			●	
<b>S2 Stock</b>				
<b>2.1 Inventory Stratification</b>				
2.1.1 Inventory Stratification		●		
<b>2.2 Forecasting</b>				
2.2.1 What to forecast?	●			
2.2.2 Demand Classification			●	
2.2.3 Forecasting Methods	●			
<b>2.3 Replenishment</b>				
2.3.1 When to Order? (reorder point – ROP)	●			
2.3.2 How Much to Order? (order quantity)	●			
2.3.3 Replenishment Policy		●		

Figure 5: Sample Report

### Impact of Best Practices on EBITDA (Typical Distributor)

All business processes – SOURCE, STOCK, SELL, STORE, SHIP



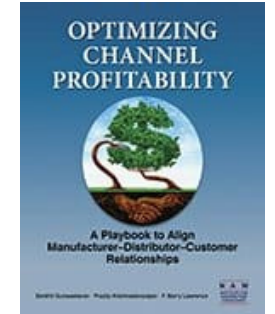
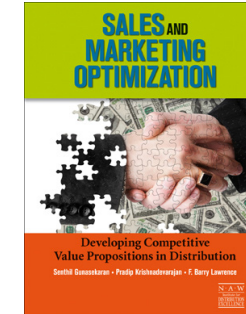
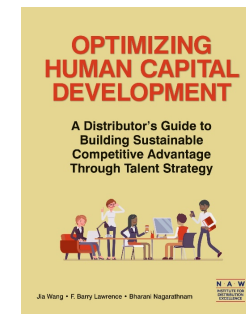
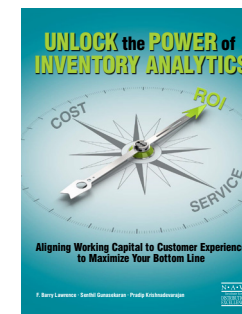
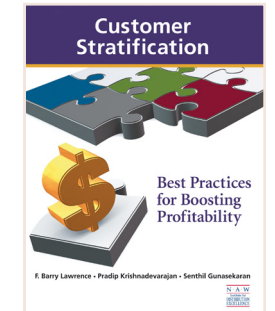
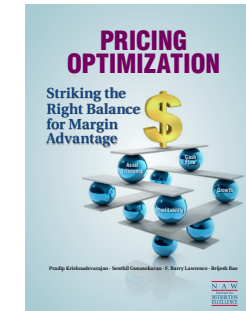
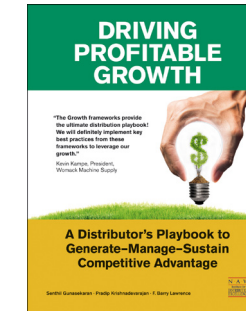
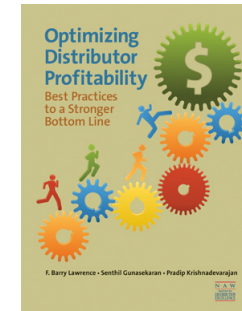
#### Benefits

- Neutral third party perspective by Texas A&M with a supply chain focus leading to global (overall company) instead of local optimization of processes.
- Comprehensive assessment of business processes and comparison against best practice firms.
- Structured framework connecting business processes and financial metrics
- Improved Net Margins

Who Should Attend	Deliverables
<ul style="list-style-type: none"> <li>• Strategic Business Managers</li> <li>• Regional / Functional Heads</li> <li>• Branch / Operations Managers</li> <li>• Finance Managers / Controllers</li> <li>• C-Suite, Business Owners, and Entrepreneurs</li> </ul>	<ul style="list-style-type: none"> <li>• Slides as a course booklet</li> <li>• Workbook for exercises and activity</li> <li>• Best practices framework map</li> <li>• Optimizing Distributor Profitability book</li> <li>• Certificate</li> </ul>

### Current Publications

All publications are published through Texas A&M University's partnership with the NAW Institute for Distribution Excellence. The following publications can be purchased here:  
<https://www.naw.org/naw-institute-for-distribution-excellence/#CRDBP>



### WHY WORK WITH US?

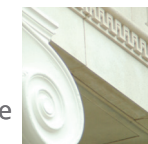
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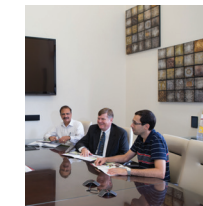
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For more information, please contact Patrick Dolan at [readcenterinfo@tamu.edu](mailto:readcenterinfo@tamu.edu).



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