



Optimizing Your Business for Profit

In our first Wholesale Distribution Insight, we made the case for wholesale distributors to capitalize on technology to initiate an enterprise-wide change in service focus and attitude. We maintain that distributors would thereby establish themselves as essential strategic channels of products and services within their supply chains. This Insight starts where that one left off, discussing in concrete terms the ways in which distributors can—and should—optimize their businesses for profit.

Unfortunately, strategic thinking alone is not enough to create the necessary foundation for long-term growth and commercial prosperity. Wholesale distributors must tackle the deficiencies in their operational and business processes and find ways to optimize those processes in order to enhance profitability.

But what exactly can wholesale distributors do to squeeze more efficiency, wider margins and more profit out of their businesses? The short answer is that you need to be practical and focus on areas where you can realize tangible and quantifiable business benefits without turning your organization upside down.

You also need to make sure you select the right technology partners. Many software companies make exaggerated claims about their products. Therefore, it is vital that wholesale distribution companies become more adept at defining their specific needs so that they can distinguish between functionality that will be meaningful for them and functionality that won't.

Since most distribution businesses operate at three levels—supply chain planning, trading and supply chain execution—this paper examines each of these areas in turn to identify some of the key business issues and how best to tackle them.

Supply Chain Planning

In many ways the wholesale distribution sector is unique. Given that its margins are so tight, the difference between making a profit or not can turn on a decision that doesn't seem at all so significant when it is made.

As we all know, the wholesale distribution sector operates in a state of constant change with companies managing hundreds of thousands of stock items on a minimum or maximum stock basis. Most distributors maintain high stock levels—between 80 to 90 percent for lower-cost, high-volume products, somewhat lower for high-value items.

On the plus side, high stock levels give distributors the protection and comfort of knowing that when a customer wants something fast, it is available for delivery. Meeting demand the first time, every time is a worthy and commercially astute business objective. But there is a downside to high stock levels, of course—they tie up valuable working capital!



It is possible, though, for distributors to have the best of both worlds. Best practice indicates that stocks can be reduced significantly while simultaneously retaining the flexibility to maintain—and often improve—product availability levels, and lift customer delivery performance as a result.

Since the downward pressure on margins shows no sign of abating, it really is high time for distributors to find a replacement for the min/max stock policy (which is in any case much too generic for the varied demands of today's customers). A more efficient stock policy would also open up the opportunity for distributors to minimize waste and product obsolescence, increase the potential to gain extra sales as a result of improved product availability, and possibly even improve customer service levels.

The most efficient solution would be to implement an individual stocking policy for each different product line—a policy that reflects your various sales and supplier channels. To achieve this you need to look closely at the range of supply chain planning tools currently available. These include tools that optimize stock by taking into account previous sales patterns and likely demand through multiple sales channels such as traditional trade counters, telesales and field sales, electronic data interchange (EDI) and e-sales.

These tools are able to respond automatically in real time to facilitate stock replenishment on an almost just-in-time basis, or flag actions to be considered if things change—hourly, daily, weekly or monthly. They provide decision makers with value-based options on stock mix that are based on predefined criteria and take the various constraints in the business into account.

With this type of planning solution in place, as soon as a customer walks into a branch you are able to offer an up-to-date, on-screen stock status for high-volume items and/or a calendar with accurate delivery dates for high-value items. Alternatively, when a customer makes an inquiry by telephone or over the Internet, your employees will have access to all the information they need to respond immediately and positively. The outcome is lower stock levels, higher customer service and less tied-up working capital.

Trading

Customers are unforgiving. If they can't get something from you the first time around, they will simply source it from another supplier from that point on. A lost customer is difficult to recapture. Distributors know better than anyone the value of fulfilling an order the first time, every time—heaven help you if just one product line is not available. So it's no great surprise that up until now, excess stocking has been the norm in order to avoid disappointing customers.

Just a few years ago, distributors had fewer supply and sales channels to manage. The information stored in the heads of long-serving employees—alongside some simple systems—was enough to run a distribution business smoothly. Distributors were able to cope with highly departmentalized organizational structures that fed a culture in which information was fenced within departments.

But times have changed. Nowadays technology itself has become a catalyst for ongoing change, creating a multitude of entry points through which customers and suppliers gain access to distributors' businesses. Technology has undeniably contributed to the ten-fold increase in the pace at which business is conducted, and created today's "We want it all, and we want it now" attitude.

From extensible markup language (XML) integration and sales to trade counters and field sales, each channel in a distribution business requires optimization and careful management. This ensures that every possible opportunity is taken to exploit the full potential of each channel and present the organization as a whole in the most positive and competitive way.



Distributors have customers coming at them from all directions with demands for broader stock ranges, lower prices and faster delivery. In this environment, it's going to require extreme flexibility and operational agility in order to support every channel to the fullest and still make a decent profit in the long term.

So, what are the best trading-related options available to distributors to support them in their efforts to optimize their businesses? Your goals are to reduce administration time and operational costs, make it easier for suppliers to sell and buyers to buy, improve customers' ability to serve themselves, and increase revenues through more sales and cross-selling. Ultimately, you want to widen your margins, improve your bottom line and free up time and resources for business development, right?

Achieving those goals requires the use of open, Java-based systems that are able to interact seamlessly with your customers' and suppliers' systems via the Internet, regardless of what kind of technology your customers and suppliers use themselves. With this sort of system in place, your customers can submit orders whenever they want—24 hours a day, seven days a week. The system processes these orders automatically from order receipt and confirmation through to delivery and payment. The only thing you have to do is make sure optimum stock levels and product mixes are retained specifically for each channel. Your customers (and suppliers) do the rest!

Supply Chain Execution

Once you've optimized your stock levels to meet customer demand and made sure that your suppliers know what's expected of them, it's time to get down to the practicalities in the warehouse. What are your processes for handling inbound goods? Do you allocate them efficiently? Do you pick orders quickly and accurately? Are you loading them onto vehicles according to the most optimum delivery routes and getting them to customers on time?

Managing a warehouse and the flow of goods in and out of it requires more than just a state-of-the-art physical infrastructure. In this crucial part of the operation, everything comes together and the results either dazzle or dismay the customer.

While the majority of distributors already run well-equipped and well-planned warehouses, things can and do still go wrong, particularly when volumes spike. The weak link is often the absence of integrated business processes and tools that automatically optimize the entire operation to improve throughput and response. This kind of optimization swiftly results in increased delivery performance and reduced operational costs.

For inbound goods, truly efficient warehouses use powerful IT systems to deliver stock-related information to suppliers. This information enables suppliers to take more responsibility for delivery requirements to help meet demand and avoid overstocking. When the goods arrive at the warehouse, the system automatically determines whether they should be put away in the most optimal location, set aside for inspection, or allocated immediately for a back order, for example.

For outbound goods, there are tools to manage flexible picking methods, such as order or wave picking and the management of back orders and "hot" items, with a variety of options governed by prescribed rules.

A good supply chain execution system should also support radio frequency devices to ensure that operative actions become as close to foolproof as possible. Further, it should optimize and manage the physical delivery routes of your own fleet or of third-party or parcel carriers, and take required capacity into account to ensure that service level agreements are met.



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Conclusion

It's clear that the areas of supply chain planning, trading and supply chain execution present a variety of opportunities for distributors to optimize and thereby make significant improvements to the profitability of their businesses. The crucial first step to making it all happen is to ensure that you select the right software partner:

True optimization of your operations will require a partner that truly understands the distribution sector and offers applications that are open and Java-based so that they can take full advantage of Internet technology. Once you have selected the right partner, the next major step is to sit down together to develop an optimization approach for each level of your enterprise—supply chain planning, trading and supply chain execution—in which you establish clear and tangible goals for improved efficiency, wider margins and higher profit.