



SPASIGMA

Linking KPIs to Operational Cash Flow and Profitability

An Introduction by:
DAVE O'NEILL
DIRECTOR OF SALES
SPA

Opening thoughts to position today's discussion

Primary Focus



Decisions

Strategic Pricing Associates

Modern Distribution Environment

Cash is King

- Cash flow is crucial to the health of any distribution business

Key Performance Indicators

- Established to monitor progress against goals
- Decisions we make move us towards or away from goals

Better Decisions

- 25 years of working with clients to make better pricing decisions
- Driving profitability goals, GP% KPI

Financial Acumen

- KPIs help everyone in your enterprise get on the same page in regards to making good business decisions
- Understanding how your clients make money and the impact of their individual decisions on their ability to generate cash can differentiate you in the marketplace. If you can help them drive their financial goals, you become more than a vendor.



Business Methodologies International

Introducing Bill Albert



President
Business Methodologies International
Global Consulting

- SPA Partnership
- Broader focus on customer operations



Linking KPIs to Operational Cash Flow and Profitability

**BILL ALBERT
PRESIDENT
BUSINESS METHODOLOGIES INTERNATIONAL
GLOBAL CONSULTING**



OBJECTIVES

... Why are we here today?

01

Look at who in our organization touches Operations and how they impact that side of the house.

02

Look at different KPIs through the lens of Operational Cash Flow

03

The Good, the Bad and the Ugly when discussing Safety Stock

04

Obsolete Inventory: Possession is 9/10th of the Problem

05

The Power of Rebates on Profitability and EBIT

06

Examining Operations' impact on Sales Force Profitability

07

Examining Operations' impact on Customer Profitability

08

Wrapping it all up

09

Questions and Answers

When Your Business is a Margin Business You Need to be Great at

- Controlling Inventory
- Buying and Selling a Better Mix of Products
- Buying Your Inventory at a Lower Cost
- Selling Your Products at a Higher Margin



OBJECTIVES

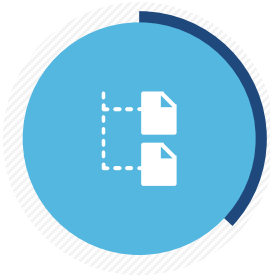
... Why Key Performance Indicators?

KPI's are something that we in distribution have come to lean on. They are invaluable to us in measuring the value that demonstrates how efficiently we are in achieving our business objectives.

- **Use KPI's to evaluate our success at reaching our targets**
- **How do we know if our KPI's are 'meaningful' and moving the needle?**

KEY PERFORMANCE INDICATORS (KPI's)...

Measurement and analysis activities allow you to:



Characterize

or gain understanding
of processes, products,
resources and
environments



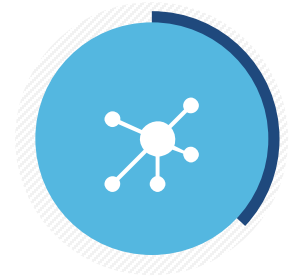
Evaluate

to determine your status
with respect to your plans



Predict

by understanding
relationships among
processes and products
so the values you
observe for some
attributes can be used to
predict others



Improve

by identifying roadblocks,
root causes,
inefficiencies and other
opportunities for
improvement

Work and our impact!

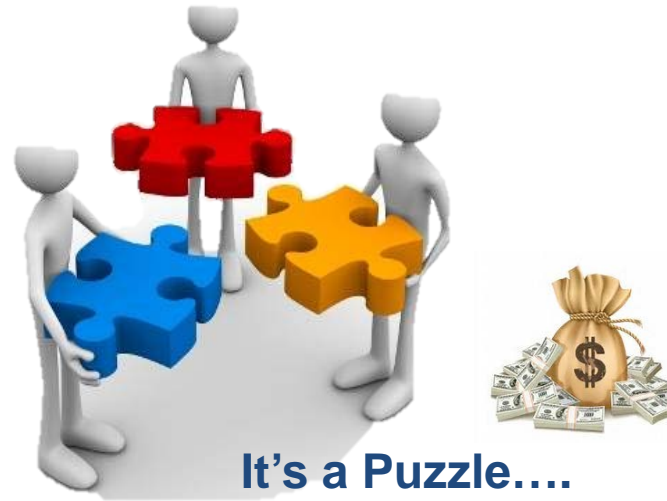
Customer Sales
Profitability

Safety Stock

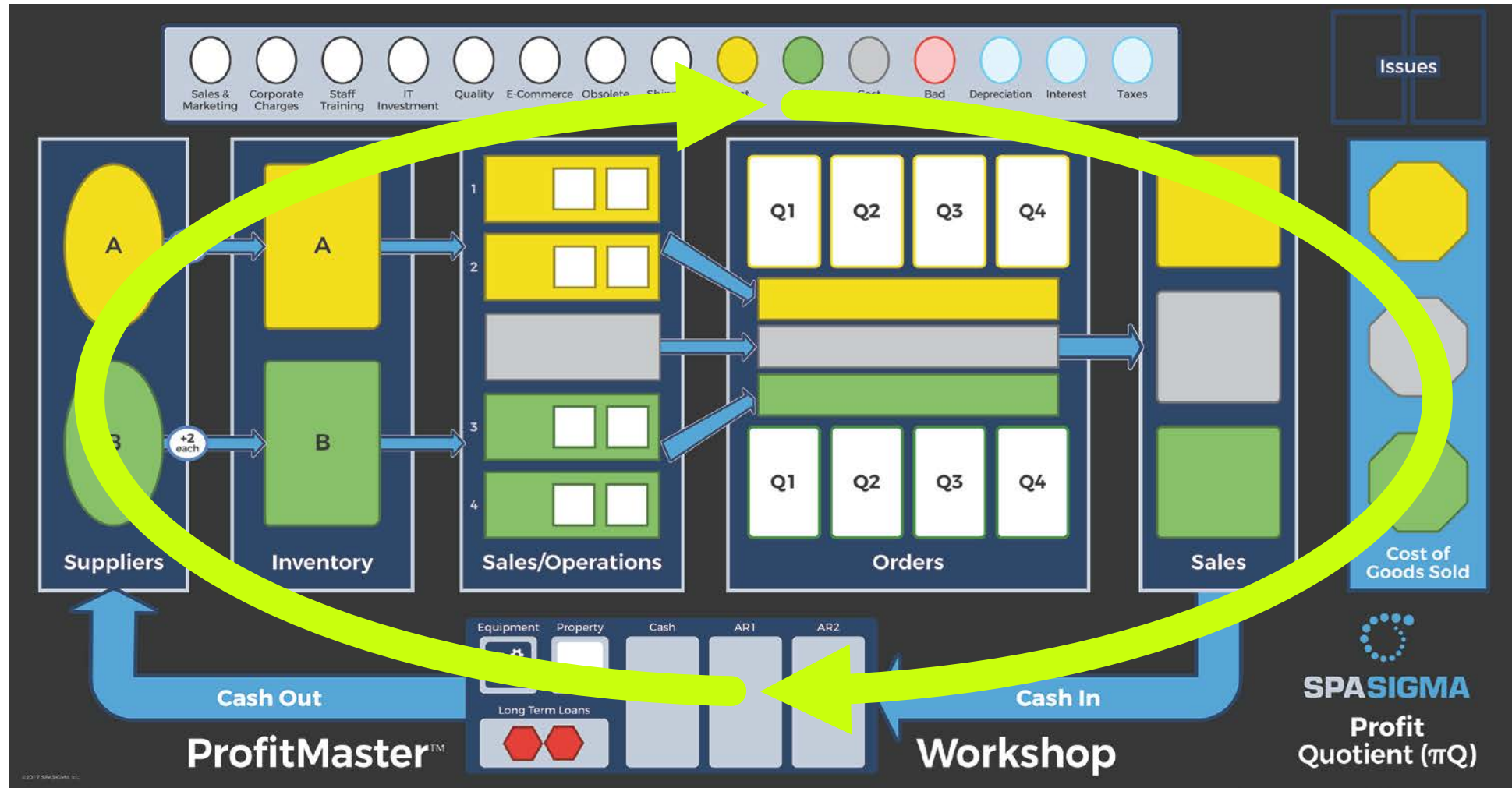
Obsolete
Inventory

Sales Force
Profitability

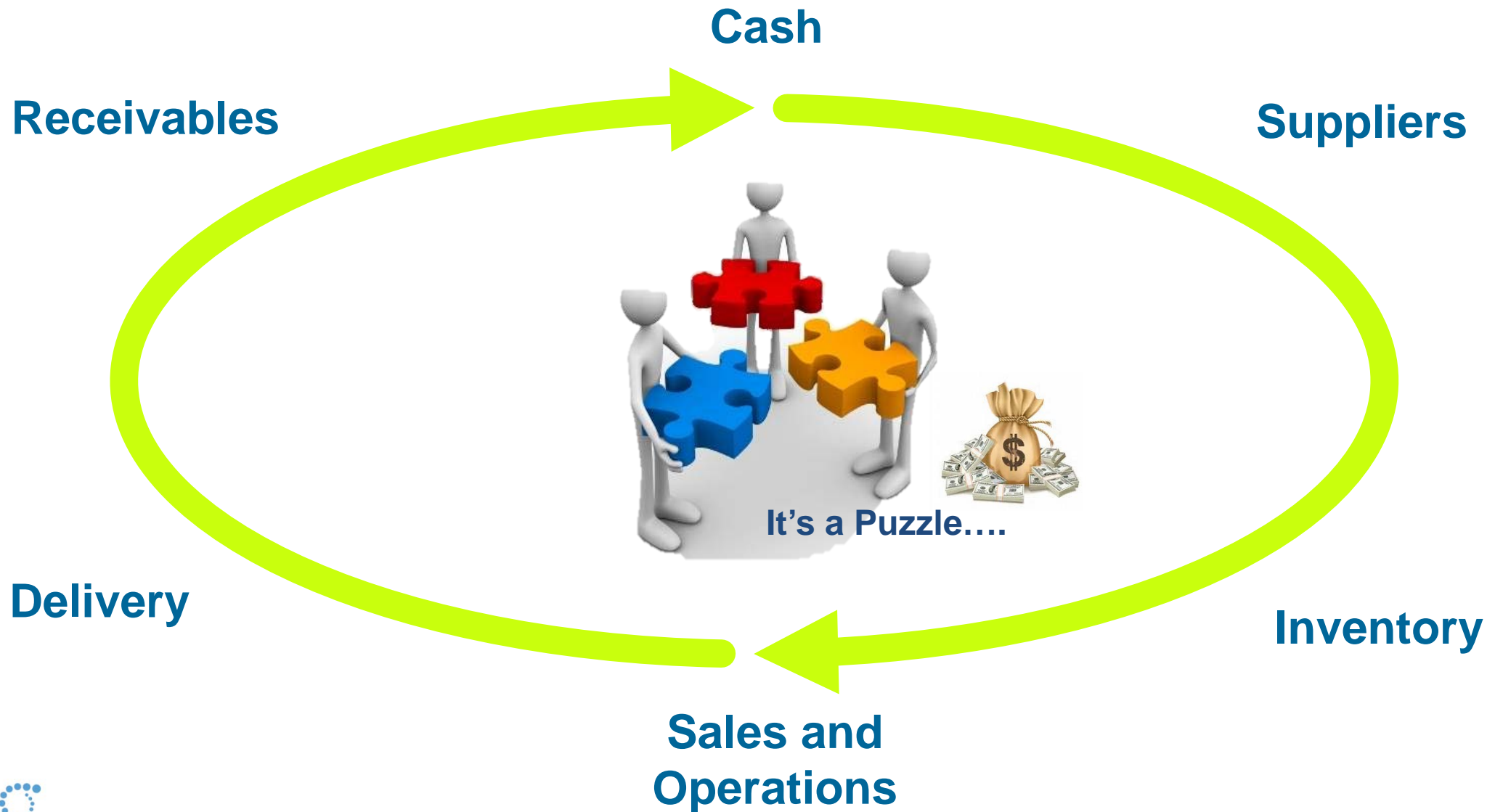
Rebates



Understanding Cash Flow Cycle....



Piecing Together Our Roles



Operational Cash Flow....

Operating Cash Flow

Total Revenue – Operating Expenses

- Measures the cash generated by our company's operations
- Indicates if our company is able to generate sufficient positive cash flow to grow our operations





Let's now look at our
*'Sales and Operational
– Key Performance
Indicators'* and using our
'analytics approach'

Now look at our 'Buyer Side' ...



Safety Stock ...



Obsolete Inventory ...



Rebates ...



Sales Force Profitability ...



Customer Sales Profitability ...

Safety Stock...In the Relationship of the Future

As distributors stocks a product with a **'targeted minimum'** inventory level that we feel will service the majority of our orders. This quantity is called the 'Safety Stock'

- If an item **sells with a regular pattern** ... 'Safety Stock' is easy to determine
- Difficult to determine 'Safety Stock' when there is a **high variability of demand**
- **High variability of demand requires a higher level of 'Safety Stock'** to ensure same level of service

Rationalizing Safety Stock – The Positives

1. It's used as a buffer to protect the distributorship from stock shortages and potentially poor support from certain suppliers.
2. It gives the distributor the ability to absorb the variability of customer demand
3. By absorbing these variables, safety stock can improve the customer service level.

The goal of ensuring customer satisfaction is both noble and smart.

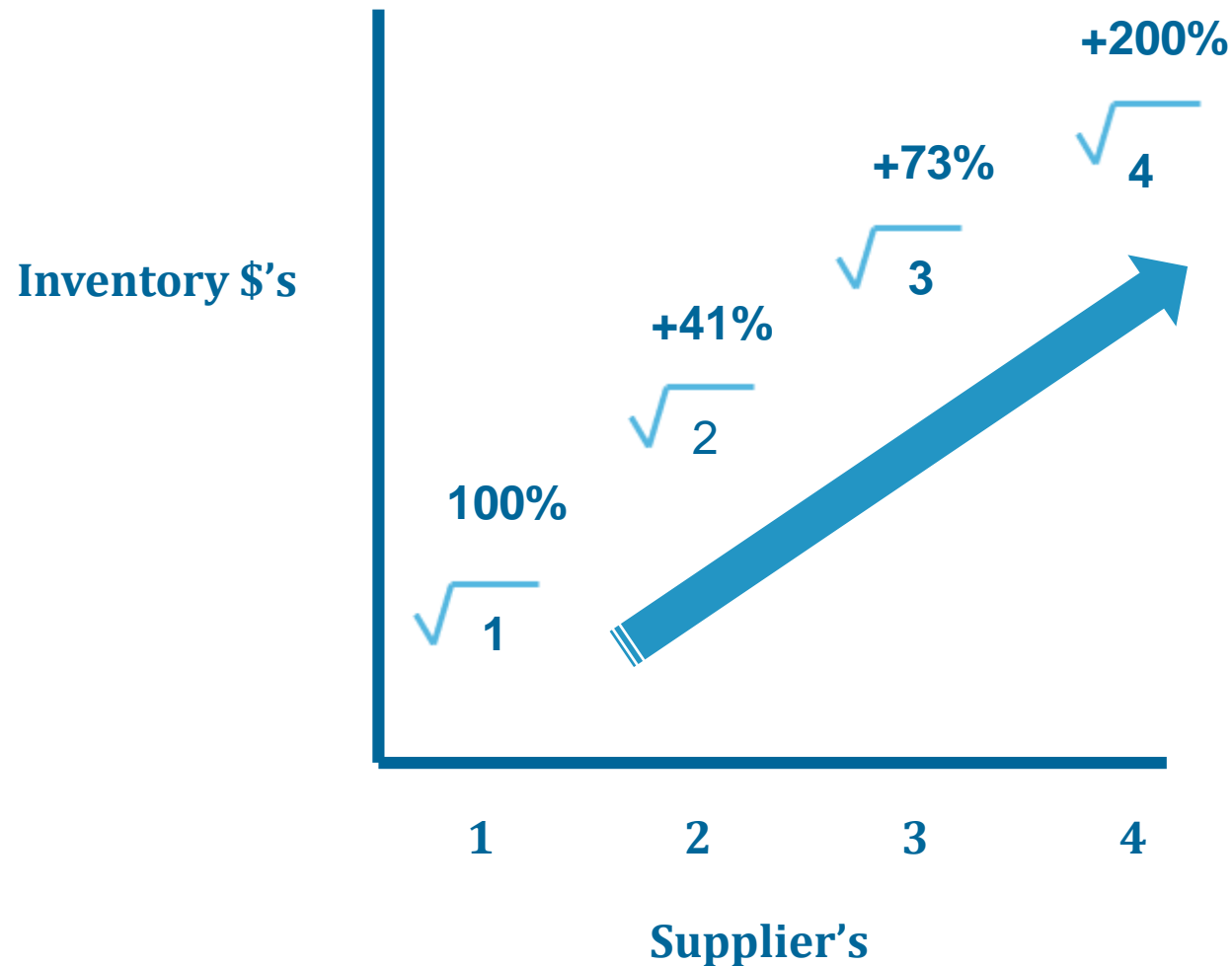
Rationalizing Safety Stock – The Negatives

1. The more suppliers you have, the more redundant inventory you may be carrying.
2. The more redundant inventory, the greater the probability is of driving obsolescence within the distributorship.

Theory of Inventory Square Roots

Average inventory increases proportionally to the square root of the number of vendors providing you with the same product.

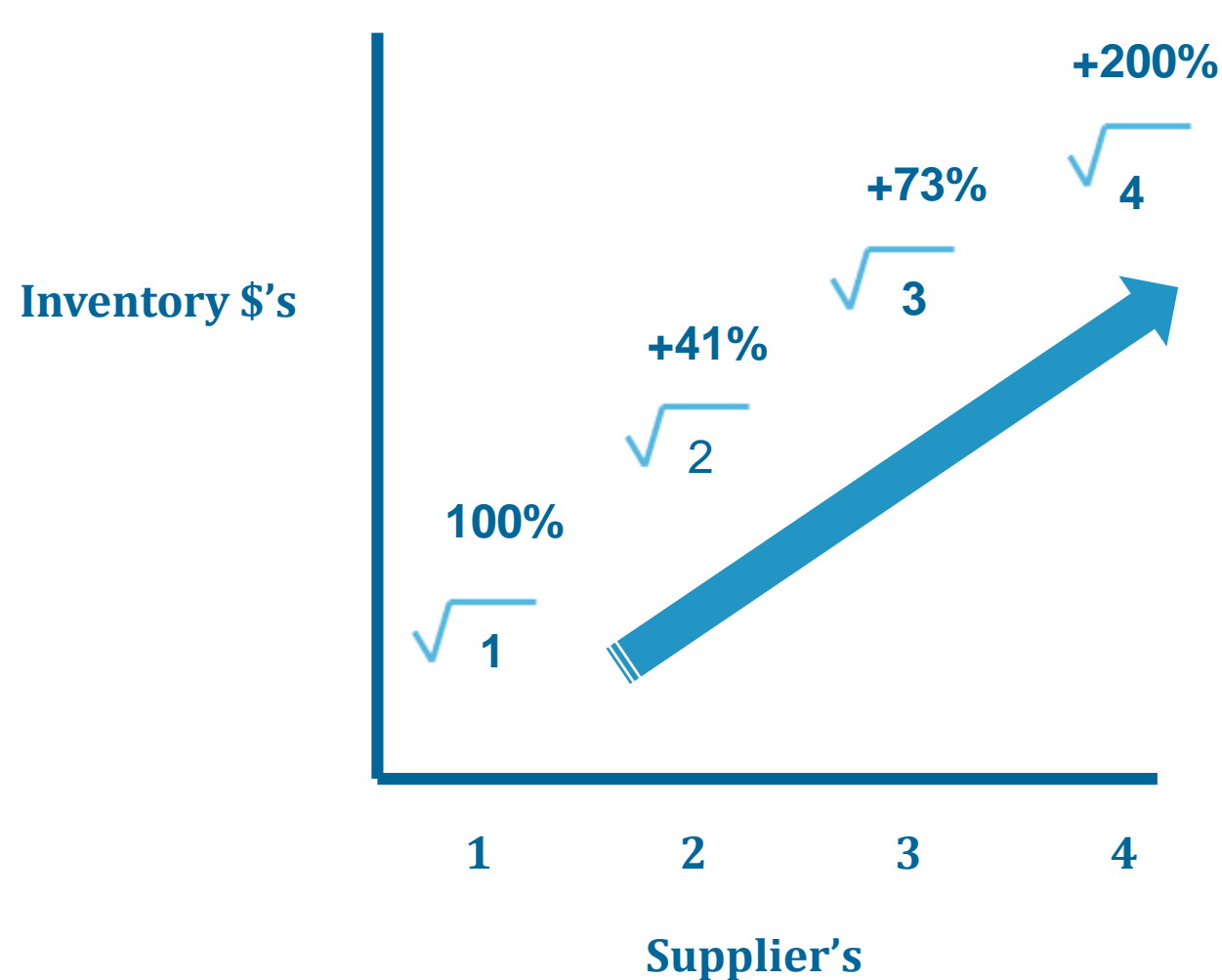
The More Suppliers, the More Redundant Inventory



Carrying 4 Suppliers -Covering Basic Product Group-

- √ 1 > 100% of our inventory is needed from 'Preferred' supplier
- √ 2 > 41 % with two suppliers; one 'Preferred' and one secondary supplier carrying 41% in additional safety stock
- √ 3 > 73% with three suppliers; one 'Preferred' and two additional suppliers carrying 73% in additional safety stock
- √ 4 > 200% with four suppliers; one 'Preferred' and three additional suppliers carrying 100% in additional safety stock

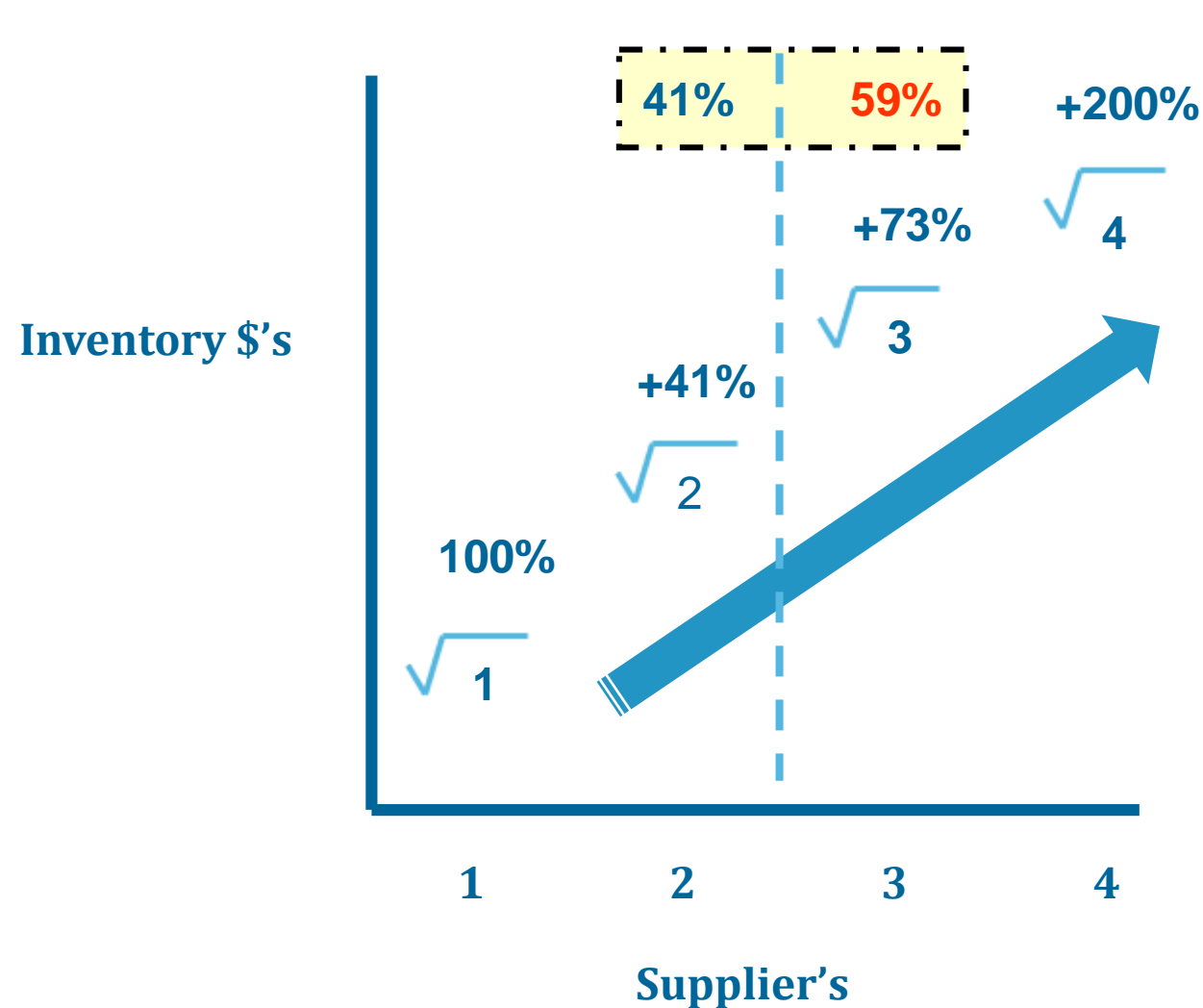
The More Suppliers, the More Redundant Inventory



**Carrying 4 Suppliers
-Covering Basic Product Group-**
.....

- 59% of our inventory becomes safety stock
- 41% of our inventory is actually supported by order point
- 100% of our remaining inventory is B, C and D products

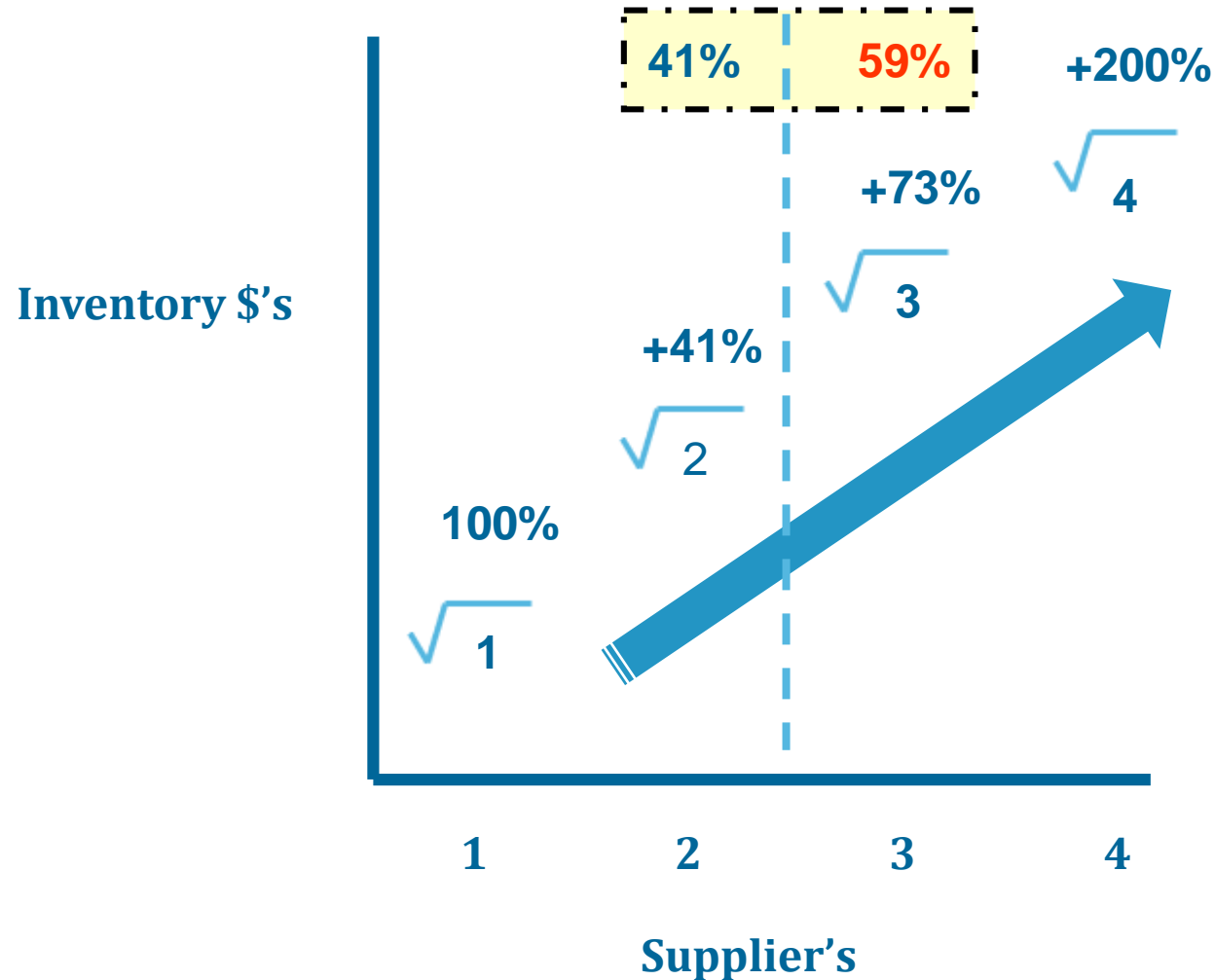
The More Suppliers, the More Redundant Inventory



Consolidation of Suppliers -Covering Basic Product Group-

- Consolidation to one or two suppliers reduces 'safety stock' by 59%
- Consolidation to three suppliers or splitting the second and third suppliers to a combined 20%
- 1.41% of our inventory is A & B products

Transaction costs decrease when consolidating redundant suppliers



Consolidation of Suppliers
- Covering Basic Product Group-
.....
‘Potential Savings’

- Transaction costs
- Purchase Orders
- Receiving – Staging – Put-Away- Pull- Ship
- Quality Shipping / Fewer Error / Returns = Customer Experience
- Employee Product Knowledge and Expertise of Multiple Suppliers
- Obsolete Inventory
- Buyers time
- Credit, etc....

Potential Negative Impact of Redundant Suppliers

- Cuts into 'on-hand cash'
- Decreases Rebate Values
- Increases the Reality of Obsolete Inventory
- Potentially Erodes Margins
- Drives Costs to the business



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Safety Stock ...



Obsolete Inventory ...



Rebates ...



Sales Force Profitability ...



Customer Sales Profitability ...

Consider This –Avoiding Obsolete Inventory

Possession is 9/10ths of the problem!

Rick Pay, President, The R. Pay
Company LLC | May 18, 2010

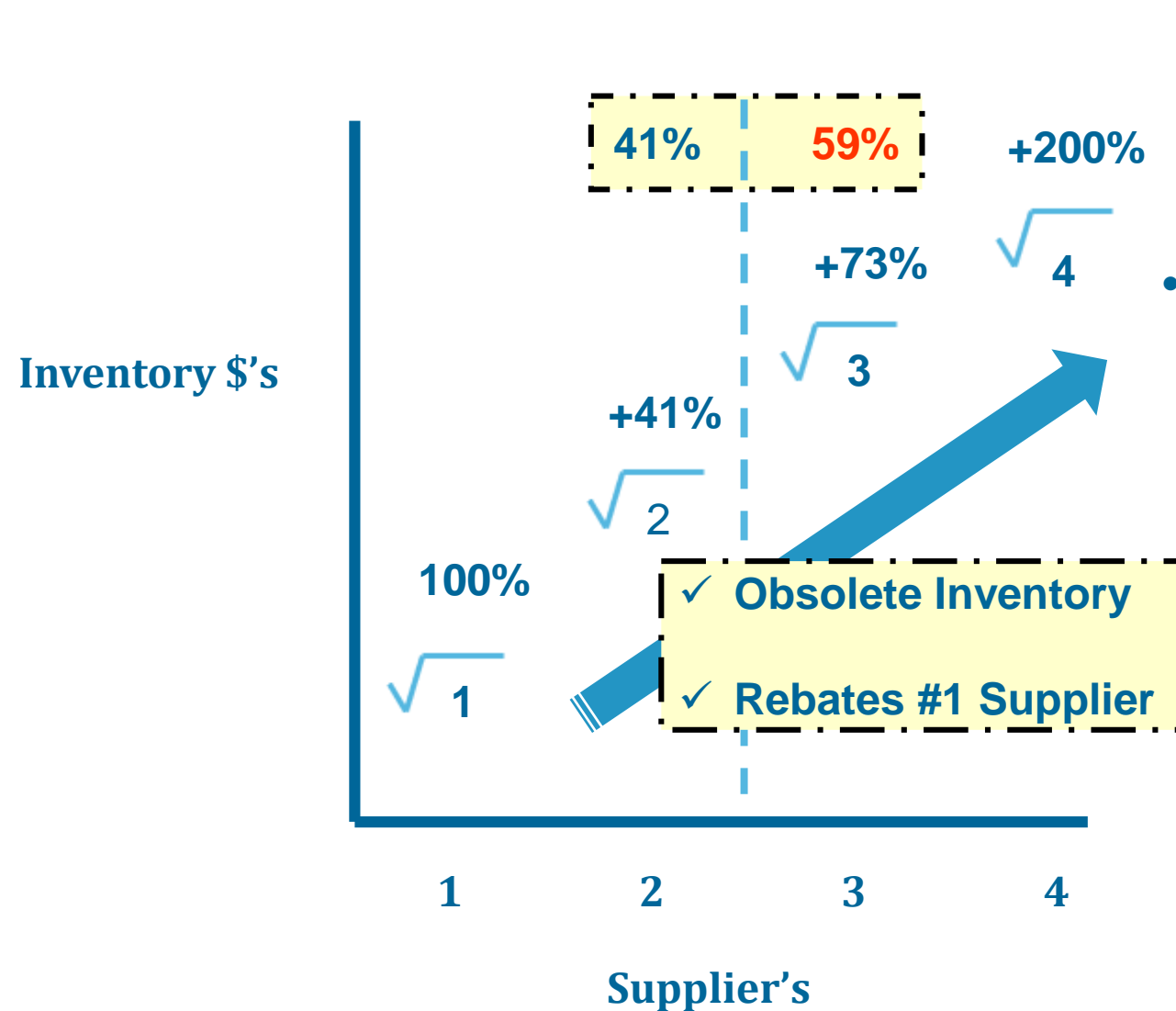
<http://www.industryweek.com/inventory-management/consider-avoiding-obsolete-inventory>

BALANCE SHEET - YEAR 1

ASSETS		YEAR		
		0	1	2
Cash	+	40	17	
Accounts Receivable	+	40	44	
Inventory	+	10	32	
Sales & Operations	+	10	10	
Unshipped Orders	+	0	0	
Current Assets		100	103	
Property	+	10	10	
Equipment	+	12	8	
Fixed Assets		22	18	
Total Assets		122	121	

ASSETS		YEAR		
		0	1	2
Cash	+	40	32	
Accounts Receivable	+	40	44	
Inventory	+	10	17	
Sales & Operations	+	10	10	
Unshipped Orders	+	0	0	
Current Assets		100	103	
Property	+	10	10	
Equipment	+	12	8	
Fixed Assets		22	18	
Total Assets		122	121	

Consolidate Suppliers → Increase Profits



Consolidation of Suppliers
- Covering Basic Product Group-
.....
'Additional Savings and Opportunities'

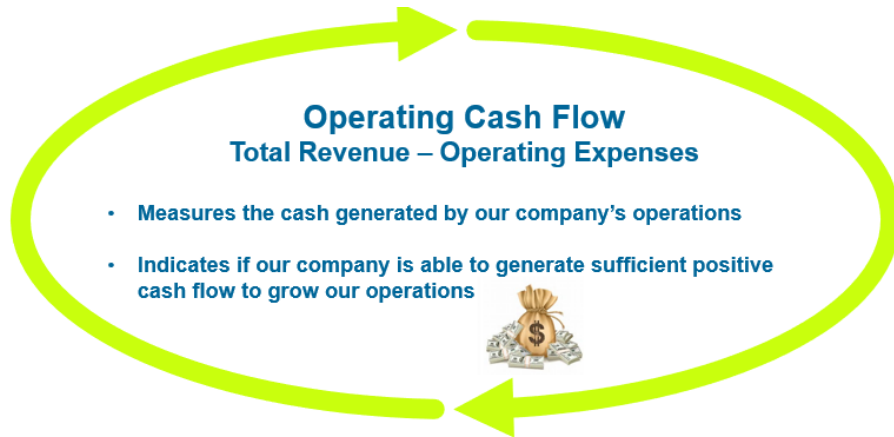
• Obsolete Inventory

- Request of # 1 Supplier return of obsolete inventory for enhanced 'Preferred' status of increased volume
- Improved obsolete inventory status % with not only saleable product / improved turns
- Free-up of cash from obsolete inventory
- Request of #1 Supplier credit on inventory of # 3 and # 4 suppliers for 'Preferred' status with possible purchase of 2 for 1 of Supplier # 1 product. (Example" \$1mil return/ \$2 mil purchase)

Rebates

- Opportunity for enhanced 'Rebate' dollars or percentage due to 'Preferred' status

Operational Cash Flow....



Operational Cash Flow Calculation
- Safety Stock /
Consolidated Suppliers-

Total Revenue / Operating Expense

$$100 / 13.5 = 13.5\%$$

Simplified Income Statement - ' Safety Stock and Consolidation of Suppliers '

INCOME STATEMENT		1	- 1%
Sales Revenue	+	100	100
Cost of Goods	-	83.3	83.3
Safety Stock / Consolidation of Suppliers	+	0	.833
Gross Profit	=	16.7	17.5
Operating Expenses	-	13.5	13.5
EBIT	=	3.2	4.0



Let's now look at our
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'analytics approach'

Now look at our 'Buyer Side' ...



Safety Stock ...



Obsolete Inventory ...



Rebates ...

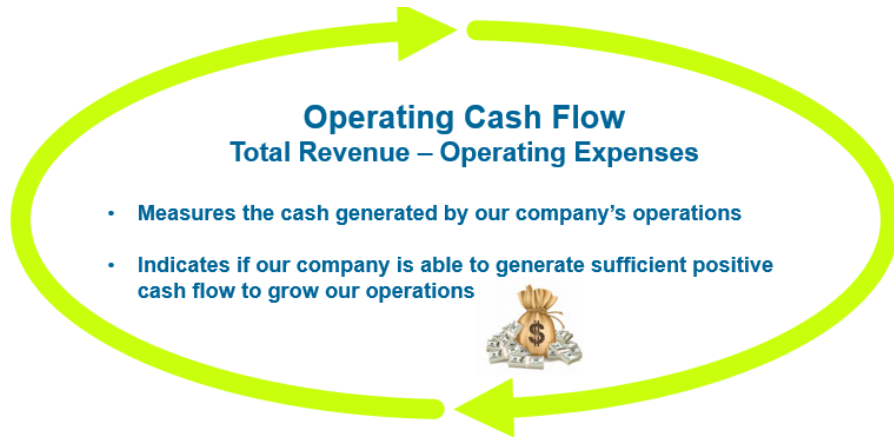


Sales Force Profitability ...



Customer Sales Profitability ...

Operational Cash Flow....



Simplified Income Statement - 'Supplier Rebates'

Operational Cash Flow Calculation
- Rebates -

Total Revenue / Operating Expense

$$100 / 13.5 = 13.5\%$$

INCOME STATEMENT		1	+ 1% Rebate
Sales Revenue	+	100	100
Cost of Goods	-	83.3	83.3
Rebates	+	0	.833
Gross Profit	=	16.7	17.5
Operating Expenses	-	13.5	13.5
EBIT	=	3.2	4.0


PERFORMANCE INDICATOR...GROSS PROFIT MARGIN

Gross Profit Margin...


Let's talk about the *buyers side* of Gross Profit Margin... it measures how well each dollar of our business is available to cover our operational and overhead costs ... *in this case a negotiated price*

✓ The higher the gross profit margin the better our business is controlling our costs

✓ It is an indication of our ability to turn a dollar of sales into profit


$$\frac{\text{Gross Profit}}{\text{Sales Revenue}} = \frac{16.7}{100} = 16.7\%$$

Millions / \$'s (Year 1)


$$\frac{\text{Gross Profit}}{\text{Sales Revenue}} = \frac{17.5}{100} = 17.5\%$$

Millions / \$'s (Year 1)

PERFORMANCE INDICATOR... EBIT % OF SALES

Looks at how effective our business is run to the degree to which we are able to consistently generate profit
... in this case *reflects a negotiated purchasing rebate...*

With NO analytics



$$\frac{\text{EBIT \$'s}}{\text{Sales Revenue \$'s}} = \frac{3.2}{100} = 3.2\%$$

Millions / \$'s

(Year 1)

With IMPROVEMENT from analytics



$$\frac{\text{EBIT \$'s}}{\text{Sales Revenue \$'s}} = \frac{4.0}{100} = 4.0\%$$

Millions / \$'s

(Year 1)

Tells us how much profit our business makes for every \$1 it generates through negotiated rebate



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Safety Stock ...



Obsolete Inventory ...



Rebates ...



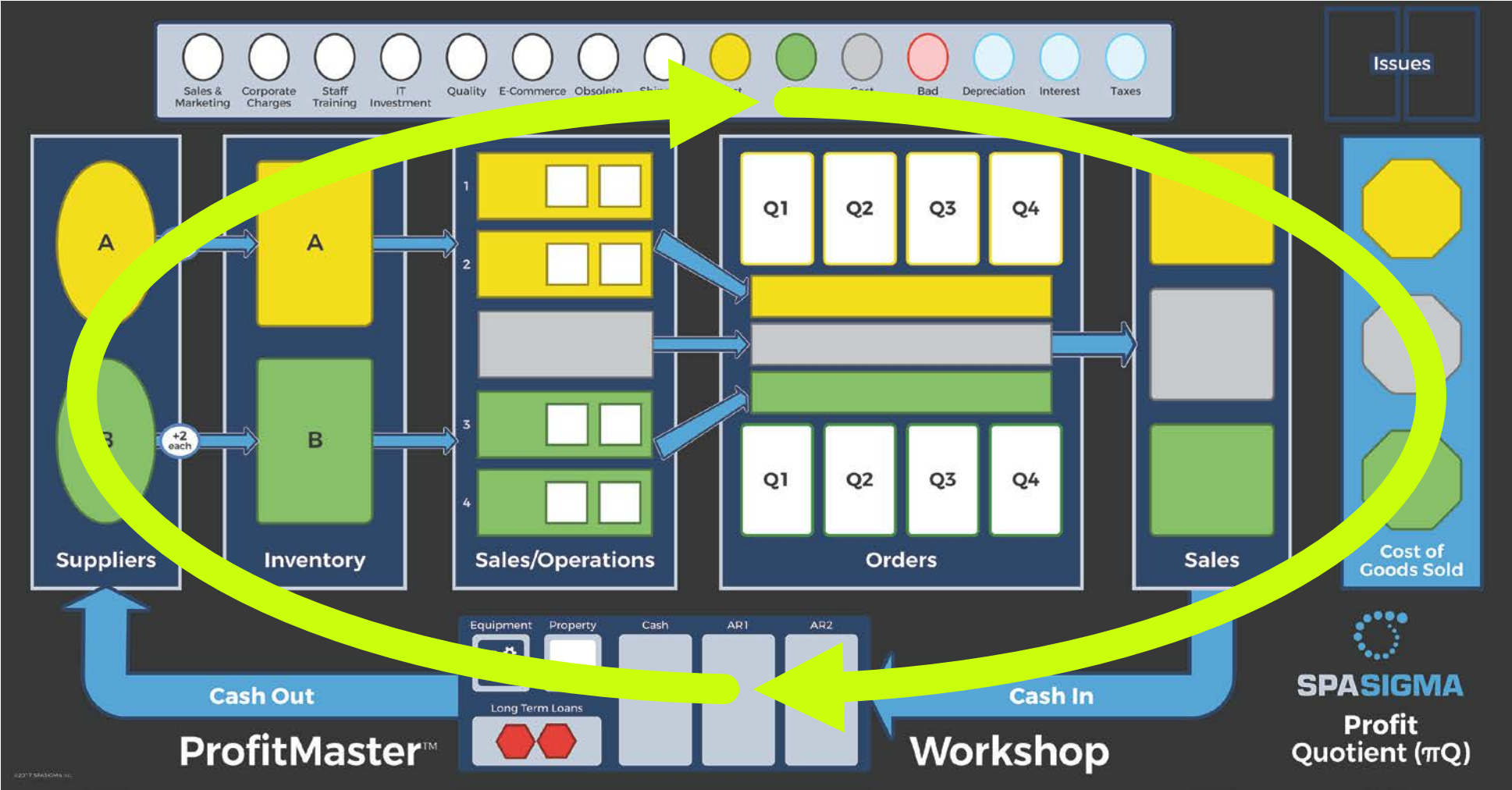
Sales Force Profitability ...



Customer Sales Profitability ...

CASH FLOW CYCLE

May 10, 2018



Performance Indicator ... Sales Force Profitability



Cost to Process an Invoice

Looks at the effectiveness of how our sales and operations are in relation to our customer profitability and profitability of our business.

There are ten main elements to the actual calculations

Salesperson

Total # of Invoices

Total \$'s - Avg Sls Per Invoice

Total Sales

Margin \$'s

Gross Margin %

Cost to Process Invoice – Direct Costs

Extended Margin %

Extend Margin Dollars

Top 20% Sales \$'s Ranking

**We need to understand how profitable we are
in processing our sales forces orders?**

Sales Force Profitability: Cost to Process an Invoice



There are ten main elements to the actual calculations

Sales Person	Total # of Invoices	Total Average Sales \$'s Per Invoice	Total Sales	Margin \$'s	Gross Margin %	Cost to Process Invoice(s) (Direct Cost)	Extended Margin	Extended Margin \$'s	Sls \$'s Ranking
--------------	---------------------	--------------------------------------	-------------	-------------	----------------	--	-----------------	----------------------	------------------

- Sales
- Cost of Goods
- **Direct Costs / Expenses**

Salary Administration

Salary Inside

Salary Outside

Salary Bonus/ Commissions

Salary Expense

Benefit Expense

Employee Expense

Sales & Marketing Expense

Facility Expense

Delivery Expense

Let's say the average cost to process an invoice ... \$100?

Sales Force Profitability: Cost to Process an Invoice

... The average cost to process an invoice...\$100 or more?

Salesperson	Total # of Invoices	Total \$\$ Average per Invoice	Total Sales	Margin \$	Gross Margin %	Cost to process Inv based on Branch Direct Expenses	Extended Margin \$	Extended Margin %	Top 20 % Sales \$ Rank
LAMB	1,739	\$5,704	\$9,919,256	\$931,333	9.39%	\$173,900	\$757,433	7.64%	1
VINS	11,293	\$ 633	\$7,148,469	\$1,217,373	17.02%	\$1,129,300	\$88,073	1.23%	2
MART	10,891	\$ 606	\$6,599,946	\$1,058,530	16.03%	\$1,089,100	(\$30,570)	(0.46%)	3
HALL	9,020	\$ 609	\$5,493,180	\$981,385	17.85%	\$902,000	\$79,385	1.44%	4
TURN	4,222	\$ 1,131	\$4,775,082	\$562,822	11.79%	\$422,200	\$140,622	2.94%	5
HICK	10,044	\$ 381	\$3,826,764	\$300,868	7.57%	\$104,400	\$196,468	4.94%	6
GILM	5,890	\$ 665	\$3,916,850	\$914,057	23.34%	\$589,000	\$325,057	8.30%	7
DELL	5,673	\$ 596	\$3,381,108	\$540,222	15.97%	\$567,300	(\$27,078)	(0.80%)	8
BUCK	4,148	\$ 799	\$3,314,252	\$422,410	12.74%	\$414,800	\$7,610	0.23%	9
TRAM	3,438	\$ 953	\$3,276,414	\$449,788	13.73%	\$343,800	\$105,988	3.23%	10
MORT	2,278	\$ 1,253	\$2,854,334	\$355,288	12.45%	\$227,800	\$127,488	4.47%	11
JOSE	3,663	\$ 752	\$2,754,576	\$380,696	13.81%	\$366,300	\$14,396	0.52%	12

Sales Force Profitability

Let's ask our sales force to see if they can raise the Sales Price by 1% What happens ?

Salesperson	Total # of Invoices	Total \$\$ Average per Invoice	Total Sales	Increase Sales by 1%	Cost of Good Sold	Margin \$	Gross Margin %	Cost to process Inv based on Branch Direct Expenses	Extended Margin \$%	Extended Margin %
LAMB	1,739	\$ 5,704	\$9,919,256		\$8,987,923	\$931,333	9.39%	\$173,900	\$757,433	7.64%
LAMB	1,739	\$5,761		\$10,018,449	\$8,987,923	\$1,030,526	10.28%	\$173,900	\$856,627	8.55%
MART	10,891	\$ 606	\$6,599,946		\$5,546,111	\$1,058,530	16.03%	\$1,089,100	(\$30,570)	(0.46%)
MART	10,891	\$ 612		\$6,665,945	\$5,546,111	\$1,119,834	16.79%	\$1,089,100	\$30,734	0.4%

\$160,497
Incremental
gross margin

\$160,498
Operational
savings

We now have an increase of **\$160,497** in gross margin
and an increase of **\$160,498** of extended margin

Sales Force Profitability

What if we could decrease our 'Cost of Good Sold' by 1% ?

Salesperson	Total # of Invoices	Total \$\$ Average per Invoice	Total Sales	Cost of Good Sold	Decrease Cost of Good Sold by 1%	Margin \$	Gross Margin %	Cost to process Inv based on Branch Direct Expenses	Extended Margin %	Extended Margin \$
LAMB	1,739	\$ 5,704	\$9,919,256	\$8,987,923		\$931,333	9.39%	\$173,900	\$757,433	7.64%
LAMB	1,739	\$5,704	\$9,919,256		\$8,898,044	\$1,030,526	10.28%	\$173,900	\$856,627	8.55%
MART	10,891	\$ 606	\$6,599,946	\$5,541,416		\$1,058,530	16.03%	\$1,089,100	(\$30,570)	(0.46%)
MART	10,891	\$ 606	\$6,599,946		\$5,486,002	\$1,113,944	16.87%	\$1,089,100	\$24,844	0.37%

\$154,607
Incremental
gross margin

\$90,468
Operational
savings

We now have an increase of **\$154,607** in gross margin
and an increase of **\$90,468** of extended margin

Lamb and Mart Electric Supply

		No analytics	With analytics
INCOME STATEMENT		1	+ 1%
Sales Revenue	+	\$16,519,202	\$16,684,394
Cost of Goods Sold	-	\$14,529,339	\$14,384,046
Rebates	+	0	0
Gross Profit	=	\$1,989,863	\$2,300,348
Operating Expenses	-	\$1,263,000	\$1,263,000
EBIT	=	\$726,863	\$1,037,348

**With
'analytics' a
1% increase in
sales and a
1% decrease
in cost of
goods
provided an
increase of
\$310,485
In EBIT!**

+ \$ 310,485


PERFORMANCE INDICATOR...GROSS PROFIT MARGIN

Gross Profit Margin...


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$$\frac{\text{Gross Profit}}{\text{Sales Revenue}} = \frac{\$1,989,863}{\$16,519,202} = 12.04\%$$



$$\frac{\text{Gross Profit}}{\text{Sales Revenue}} = \frac{\$2,445,691}{\$16,684.394} = 14.65\%$$

Millions / \$'s

(Year 1)

Millions / \$'s

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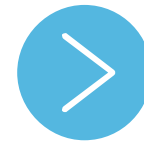


$$\frac{\text{EBIT \$'s}}{\text{Sales Revenue \$'s}} = \frac{\$726,863}{\$16,519,202} = 4.4\%$$

Millions / \$'s

(Year 1)

With IMPROVEMENT from analytics



$$\frac{\text{EBIT \$'s}}{\text{Sales Revenue \$'s}} = \frac{\$1,182,691}{\$16,684.394} = 7.08\%$$

Millions / \$'s

(Year 1)

Sales Force Profitability: Cost to Process an Invoice

... The average cost to process an invoice...\$100 or more?

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Rebates ...



Obsolete Inventory ...



Safety Stock ...



Sales Force Profitability ...



Customer Sales Profitability ...

Performance Indicator ... Customer Profitability



Cost to Process an Invoice

Looks at the effectiveness of how our sales and operations are in relation to our customer profitability and profitability of our business.

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Customer

Total # of Invoices

Total \$'s - Avg Sls Per Invoice

Total Sales

Margin \$'s

Gross Margin %

Cost to Process Invoice – Direct Costs

Extended Margin %

Extend Margin Dollars

Customer Sales \$'s Ranking

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Customer Sales Profitability: Cost to Process an Invoice



There are ten main elements to the actual calculations

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- Sales
- Cost of Goods
- **Direct Costs / Expenses**
 - Salary Administration
 - Salary Inside
 - Salary Outside
 - Salary Bonus/ Commissions
 - Salary Expense

- Benefit Expense
- Employee Expense
- Sales & Marketing Expense
- Facility Expense
- Delivery Expense

Let's say the average cost to process an invoice ... \$100?

CUSTOMER PROFITABILITY

... The average cost to process an invoice...\$100 or more?

Customer	Total # of Invoices	Total \$\$ Average per invoice	Total Sales	Margin \$	Gross Margin %	Cost to process inv based on Brand Direct Expenses	Extended Margin \$	Extended Margin %	Region Sales Rank \$'s
CORVAIR	553	\$ 16,050	\$ 8,875,525	\$ 890,977	10.44%	\$ 55,300	\$ 835,677	9.42%	1
OLD CAPITOL	2857	\$ 1,164	\$ 3,326,788	\$ 410,252	12.33%	\$ 285,700	\$ 124,552	3.74%	2
TWIN CITY	3256	\$ 880	\$ 2,865,963	\$ 425,406	14.84%	\$ 325,600	\$ 99,806	3.48%	3
BROADWAY ELECTRIC	330	\$ 7,912	\$ 2,610,828	\$ 226,555	8.68%	\$ 33,000	\$ 193,555	7.41%	4
WASHINGTON ELECTRIC	1131	\$ 2,147	\$ 2,428,228	\$ 532,057	21.91%	\$ 113,100	\$ 418,957	17.25%	5
SOUIX HEALTH	99	\$ 19,556	\$ 1,936,045	\$ 313,302	16.18%	\$ 9,900	\$ 303,402	15.67%	6
TABCO ELECTRIC SUPPLY	47	\$ 35,152	\$ 1,652,135	\$ 65,023	3.94%	\$ 4,700	\$ 60,423	3.65%	7
SAWYER & SON	1182	\$ 1,324	\$ 1,565,219	\$ 232,180	14.83%	\$ 118,200	\$ 113,980	7.28%	8
BARKER ELECTRIC	1555	\$ 1,000	\$ 1,555,148	\$ 450,309	28.96%	\$ 155,500	\$ 294,809	18.96%	9
BOSE BROS ELECTRIC	553	\$ 2,715	\$ 1,501,174	\$ 111,559	7.43%	\$ 55,300	\$ 56,259	3.75%	10
DOPELAND ELECTRIC	1462	\$ 921	\$ 1,346,792	\$ 157,351	11.68%	\$ 146,300	\$ 11,051	0.82%	11
MADMAN ELECTRIC INC	676	\$ 1,882	\$ 1,272,378	\$ 104,075	8.18%	\$ 67,600	\$ 36,475	2.87%	12
13,701 Invoices				\$ 3,919,046 Margin \$'s		\$ 1,370,100 Cost-to-Serve		\$ 2,548,946 Extended Margin	

CUSTOMER PROFITABILITY

... The average cost to process an invoice...\$100 or more?

11.43
invoices per day
250 days yr

Customer	Total # of Invoices	Total \$\$ Average per invoice	Total Sales	Margin \$	Gross Margin %	Cost to process inv based on Brand Direct Expenses	Extended Margin \$	Extended Margin %	Region Sales Rank \$'s
CORVAIR	553	\$ 16,050	\$ 8,875,525	\$ 890,977	10.44%	\$ 55,300	\$ 835,677	9.42%	1
OLD CAPITOL	2857	\$ 1,164	\$ 3,326,788	\$ 410,252	12.33%	\$ 285,700	\$ 124,552	3.74%	2
TWIN CITY	3256	\$ 880	\$ 2,865,963	\$ 425,406	14.84%	\$ 325,600	\$ 99,806	3.48%	3
BROADWAY ELECTRIC	330	\$ 770	\$ 256,555	\$ 226,555	8.68%	\$ 33,000	\$ 193,555	7.41%	4
WASHINGTON ELECTRIC	1131	\$ 462	\$ 532,057	\$ 532,057	21.91%	\$ 113,100	\$ 418,957	17.25%	5
SOUIX HEALTH	99	\$ 1,919	\$ 313,302	\$ 313,302	16.18%	\$ 9,900	\$ 303,402	15.67%	6
TABCO ELECTRIC SUPPLY	47	\$ 3,596	\$ 65,023	\$ 65,023	3.94%	\$ 4,700	\$ 60,423	3.65%	7
SAWYER	1182	\$ 192	\$ 232,180	\$ 232,180	14.83%	\$ 118,200	\$ 113,980	7.28%	8
BARKE	1555	\$ 1,000	\$ 1,555,148	\$ 450,309	28.96%	\$ 155,500	\$ 294,809	18.96%	9
BOSE B	553	\$ 2,715	\$ 1,501,174	\$ 111,559	7.43%	\$ 55,300	\$ 56,259	3.75%	10
DOPEL	1462	\$ 921	\$ 1,346,792	\$ 157,351	11.68%	\$ 146,300	\$ 11,051	0.82%	11
MADM	676	\$ 1,882	\$ 1,272,378	\$ 104,075	8.18%	\$ 67,600	\$ 36,475	2.87%	12
13,701 Invoices		\$ 3,919,046 Margin \$'s		\$ 1,370,100 Cost-to-Serve		\$ 2,548,946 Extended Margin			

13.02
invoices per day
250 days yr

4.52
Invoices per
250 days yr

CUSTOMER PROFITABILITY

Invoice reductions and transaction costs ...\$100 or more Cost-to- Serve?

Customer	Total # of Invoices	Total \$\$ Average per invoice	Total Sales	Margin \$	Gross Margin %	Cost to process inv based on Brand Direct Expenses	Extended Margin \$	Extended Margin %	Region Sales Rank \$'s
CORVAIR	553	\$ 16,050	\$ 8,875,525	\$ 890,977	10.44%	\$ 53,000	\$ 835,677	9.42%	1
OLD CAPITOL	2857	\$ 1,164	\$ 3,326,788	\$ 410,252	12.33%	\$ 285,700	\$ 124,552	3.74%	2
OLD CAPITOL	2572	\$ 1,293	\$ 3,326,788	\$ 410,252	12.33%	\$ 257,200	\$ 153,052	4.60%	2
TWIN CITY	3256	\$ 880	\$ 2,865,963	\$ 425,406	14.84%	\$ 325,600	\$ 99,806	3.48%	3
TWIN CITY	2605	\$ 1,100	\$ 2,865,963	\$ 425,406	14.84%	\$ 260,500	\$ 164,906	5.75%	3
BROADWAY ELECTRIC	330	\$ 7,912	\$ 2,610,828	\$ 226,555	8.68%	\$ 33,000	\$ 193,555	7.41%	4
WASHINGTON ELECTRIC	1131	\$ 2,147	\$ 2,428,228	\$ 532,057	21.91%	\$ 113,100	\$ 418,957	17.25%	5
WASHINGTON ELECTRIC	792	\$ 3,066	\$ 2,428,228	\$ 532,057	21.91%	\$ 79,200	\$ 452,857	18.64%	5
SOUIX HEALTH	99	\$ 19,556	\$ 1,936,045	\$ 313,302	16.18%	\$ 9,900	\$ 303,402	15.67%	6
TABCO ELECTRIC SUPPLY	47	\$ 35,152	\$ 1,652,135	\$ 65,023	3.94%	\$ 4,700	\$ 60,323	3.65%	7
SAWYER & SON	1182	\$ 1,324	\$ 1,565,219	\$ 232,180	14.83%	\$ 118,200	\$ 113,980	7.28%	8
BARKER ELECTRIC	1555	\$ 1,000	\$ 1,555,148	\$ 450,309	28.96%	\$ 155,500	\$ 294,809	18.96%	9
BOSE BROS ELECTRIC	553	\$ 2,715	\$ 1,501,174	\$ 111,559	7.43%	\$ 55,300	\$ 56,259	3.75%	10
DOPELAND ELECTRIC	1462	\$ 921	\$ 1,346,792	\$ 157,351	11.68%	\$ 146,300	\$ 11,051	0.82%	11
MADMAN ELECTRIC INC	676	\$ 1,882	\$ 1,272,378	\$ 104,075	8.18%	\$ 67,600	\$ 36,475	2.87%	12
13,701 to 12,429 Invoices		\$ 3,919,046 Margin \$'s		\$1,370,100 to \$1,242,900 Cost-to-Serve		\$ 2,676,146 Extended Margin			

Customer Sales Profitability

Invoice reductions and transaction costs ...\$100 or more Cost-to- Serve?

Customer	Total # of Invoices	Total \$\$ Average per invoice	Total Sales	Margin \$	Gross Margin %	Cost to process inv based on Brand Direct Expenses	Extended Margin \$	Extended Margin %	Region Sales Rank \$'s
CORVAIR	553	\$ 16,050	\$ 8,875,525	\$ 890,977	10.44%	\$ 53,000	\$ 835,677	9.42%	1
OLD CAPITOL	2857	\$ 1,164	\$ 3,326,788	\$ 410,252	12.33%	\$ 285,700	\$ 124,552	3.74%	2
OLD CAPITOL	2572	\$ 1,293	\$ 3,326,788	\$ 410,252	12.33%	\$ 257,200	\$ 153,052	4.60%	2
TWIN CITY	3256	\$ 880	\$ 2,865,963	\$ 425,406	14.84%	\$ 325,600	\$ 99,806	3.48%	3
TWIN CITY	2605	\$ 1,100	\$ 2,865,963	\$ 425,406	14.84%	\$ 260,500	\$ 164,906	5.75%	3
BROADWAY ELECTRIC	330	\$ 7,912	\$ 2,610,828	\$ 226,555	8.68%	\$ 33,000	\$ 193,555	7.41%	4
WASHINGTON ELECTRIC	1131	\$ 2,147	\$ 2,428,228	\$ 532,057	21.91%	\$ 113,100	\$ 418,957	17.25%	5
WASHINGTON ELECTRIC	792	\$ 3,066	\$ 2,428,228	\$ 532,057	21.91%	\$ 79,200	\$ 452,857	18.64%	5
SOUIX HEALTH	99	\$ 19,556	\$ 1,936,045	\$ 313,302	16.18%	\$ 9,900	\$ 303,402	15.67%	6
TABCO ELECTRIC SUPPLY	47	\$ 35,152	\$ 1,652,135	\$ 65,023	3.94%	\$ 4,700	\$ 60,323	3.65%	7
SAWYER & SON	1182	\$ 1,324	\$ 1,565,219	\$ 232,180	14.83%	\$ 118,200	\$ 113,980	7.28%	8
BARKER ELECTRIC	1555	\$ 1,000	\$ 1,555,148	\$ 450,309	28.96%	\$ 155,500	\$ 294,809	18.96%	9
BOSE BROS ELECTRIC	553	\$ 2,715	\$ 1,501,174	\$ 111,559	7.43%	\$ 55,300	\$ 56,259	3.75%	10
DOPELAND ELECTRIC	1462	\$ 921	\$ 1,346,792	\$ 157,351	11.68%	\$ 146,300	\$ 11,051	0.82%	11
MADMAN ELECTRIC INC	676	\$ 1,882	\$ 1,272,378	\$ 104,075	8.18%	\$ 67,600	\$ 36,475	2.87%	12
13,701 to 12,429 Invoices				\$ 3,919,046 Margin \$'s		\$1,370,100 to \$1,242,900 Cost-to-Serve		\$ 2,676,146 Extended Margin	

We now have an increase of \$127,200 in Gross Margin ...
decreased our transaction costs \$ 127,200...
with 1,272 fewer invoices



Let's now look at our
**'Customer Sales
Profitability
Relationships – Key
Performance Indicators'**
and using our 'analytics
approach'

***We looked at the reduction
of invoices and the impact
it may have on our
margins***

***What if we reduced our
'Cost-to-Serve?'***

Customer Sales Profitability

Let's improve our processes to cut our transaction costs to process an invoice from \$100 to \$80 ... ?

Customer	Total # of Invoices	Total \$\$ Average per invoice	Total Sales	Margin \$	Gross Margin %	Cost to process inv based on Brand Direct Expenses	Extended Margin \$	Extended Margin %	Region Sales Rank \$'s
OLD CAPITOL	2857	\$ 1,164	\$ 3,326,788	\$ 410,252	12.33%	\$ 285,700	\$ 124,552	3.74%	2
OLD CAPITOL	2857	\$ 1,164	\$ 3,326,788	\$ 410,252	12.33%	\$ 228,560	\$ 181,692	5.46%	2
TWIN CITY	3256	\$ 880	\$ 2,865,963	\$ 425,406	14.84%	\$ 325,600	\$ 99,806	4.60%	3
TWIN CITY	3256	\$ 880	\$ 2,865,963	\$ 425,406	14.84%	\$ 260,480	\$ 164,926	5.75%	3
WASHINGTON ELECTRIC	1131	\$ 2,147	\$ 2,428,228	\$ 532,057	21.91%	\$ 113,100	\$ 418,957	17.25%	5
WASHINGTON ELECTRIC	1131	\$ 2,147	\$ 2,428,228	\$ 532,057	21.91%	\$ 90,480	\$ 441,657	18.20%	5

7244 Invoices
Average 29 Invoices
(250 days)

\$ 1,367,715
Margin \$'s

- same -

\$ 724,400 TO
\$ 579,520
Process Savings
+ \$144,880

\$ 643,315 TO
\$ 788,195
Additional Margin
+ \$144,960

We now have an increase of \$144,880 in gross margin... decreased transaction costs a process savings of \$144,880

It's about building our 'Strategic Capabilities'

Operating Cash Flow Total Revenue – Operating Expenses

- Measures the cash generated by our company's operations
- Indicates if our company is able to generate sufficient positive cash flow to grow our operations



Operational Cash Flow Calculation
Overall Impact to 1% Initiatives

Total Revenue / Operating Expense

$$100 / 11.84 = 11.84\%$$

Simplified Income Statement 'Our Strategic Capabilities'

Income Statement		1Year	Year 1 1% difference
Sales Revenue		100	100
Cost of Goods	-	83.3	83.3
Rebates	-	0	0.83
Gross Profit	+	16.7	17.0
Operating Expense		13.5	13.5
Obsolete Inventory	+		0.83
Safety Stock	-		0.83
Sales Force Profitability	-		0.83
Customer Sales Profitability	-		0.83
		□	
Operating Expense (Adjusted)		13.5	11.84
EBIT \$		3.2	5.16

+
1.96



It's about building our 'Strategic Capabilities'



Improved productivity and decision making through better teamwork, communication, and coordination



Alignment around the 'big picture' and a deeper level of understanding of strategic and tactical initiatives



Heightened business knowledge and financial acumen



Deeper understanding of overall business and impact of KPI's and financial decisions

ANY QUESTIONS?

MARGIN
OPERATIONAL CASH MGT.
OBSOLETE INVENTORY
DSO'S
INVENTORY
PRODUCTIVITY
SALES FORCE PRODUCTIVITY
COST OF GOODS



CASH FLOW
SAFETY STOCK
EBIT
REBATES
COST TO SERVE
MANAGEMENT
SALES
CUSTOMER PRODUCTIVITY



Linking KPIs to Operational Cash Flow and Profitability

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