



Quantum Profit Gram #11

Many commodity-line distributors have evolved from a relatively narrow supplier roster to today's extensive list. In the post-credit-bubble era, your company may be burdened by too many SKUs (Stock Keeping Units) and vendors, with current business stretched too thin to drive good economic models for most of them.

Consumers may take years to repair personal balance sheets, but most businesses don't have such a sedentary timeframe to shrink SKUs and channel capacity for the "new normal".

Although analogies with retailers are often imperfect when applied to distributors, here are some useful guideposts from current retailer downsizing strategies:

- accept that "frugality is in", and will be for some time
- move quickly to close underperforming segments (branches; customer segments)
- focus on standard "need" items instead of frivolous, niche "want" items
- reduce total items, suppliers and inventory investment levels
- reduce both items and investments significantly in shrinking sales categories
- reserve resources so you can strategically increase both items and dollars in expanding categories (may include private label items consumers are switching to)
- offer back-to-basics pricing deals on some staple items (wholly funding the price cuts with cost savings from downsizing your entire corporate profile (that may have puffed up with the borrow-and-spend demand from the global credit bubble))

ACTION STEPS:

1. Rank all items by both profitability and quarter-over-quarter growth-to-decline.
2. Sum items up by their respective suppliers which should then be ranked by both profitability and growth rate.
3. Dig deeper and understand why the biggest losing supplier lines (and items) are under-performing as they are.
4. Look for redundant items / lines that could be switched to most profitable lines.
5. Use reports that summarize which customers have been buying the losing items so you can negotiate switch-over promotional programs which the most profitable suppliers should be delighted to both assist with, and share costs.
6. In addition, the best suppliers are likely to happily support your programs intended to sell more of your best items to your best customers (who aren't already buying in a niche where other customers are).

Selling more profitable items to profitable customers on a larger average order size basis is the most profit-to-the-bottom line play of all.

If you're not sure where or how to get the information or reports needed, use WayPoint Analytics for fast traction on this. Any distributor can have the service up and running in 2-3 weeks for a low monthly subscription rate. Check out everything at www.quantumprofitmanagement.com, or call for a QPM discussion and WayPoint demonstration for your senior team.

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