



 '09 IFDA  
Distribution  
Solutions  
Conference

# Best Practices for Today's Times



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**IFDA DISTRIBUTION SOLUTIONS CONFERENCE**

**OPTIMIZING YOUR OPERATION  
IN A DOWNTURN**

John Crown  
Crown Consulting

Kevin Collier  
K. Collier Marketing & Consulting



# ECONOMICALLY SIGNIFICANT RESULTS

“The manager’s job is still widely misunderstood. It is to focus on opportunities for economically significant results. But in almost all companies, the bulk of a manager’s time and effort goes toward problems. Worse, it’s usually toward problems where even extraordinary successful performance will have minimal impact upon results.”

**Peter Drucker**



## MARKET REALITIES: A NEW ERA

- ❑ Structural economic changes
- ❑ Negative industry trends/excess capacity
- ❑ Sysco: Operating leverage until Q-2 FY09
  - ❑ Operational efficiency, balancing fixed and variable costs
  - ❑ Intentionally rationalizing the customer base
  - ❑ Bad debt expense doubles; likely to remain challenging
- ❑ Focus internal processes to support sales of more profitable products to more profitable customers



## A NEW BUSINESS MODEL

- “As manufacturers negotiate simpler programs with fewer guarantees and tighter qualifications, distributors will need to adopt a radical new business model that will likely result in concentrating volume with fewer suppliers, more efficient assortment, collaborative supply chain optimization, contemporary performance metrics, and customer pricing based on actual cost-to-serve.” *Technomic Distributor Intelligence Report 1/2009*



# KEYS TO OPTIMIZING THE BUSINESS

## Sales

- ❑ Services offered vs. “cost to serve”

## Procurement

- ❑ Category management & activity-based costing

## Operations

- ❑ Labor management, engineered labor standards & activity-based compensation





# MANAGE WHAT YOU CAN CONTROL

## Controllables

- ❑ Customer mix/customer cost-to-serve
- ❑ Category management/product assortment
- ❑ Labor management
- ❑ Activity-based drivers of variable costs  
(customer and product-based)



## Non-controllables

- ❑ Fuel



# LEVERAGE NEW TECHNOLOGY

- ❑ **Invest in the Technology** - Automate internal processes, improve labor productivity, maximize asset utilization

## Most Pressing Business Issues

1. **Reducing Labor Costs** – Without layoffs, while maintaining high product quality and high customer service levels
2. **Maintaining Sales Volume and Customers**  
Without sacrificing profit/margins
3. **Obtaining Financing/Providing Credit Terms** – Banks and vendors making terms tighter; Customers harder to collect from
4. **Motivating & retaining employees**

## Areas of Focus for Business Improvement

1. **Employee/Labor Cost Management**  
Consistent with #1 most pressing business issue
2. **Transportation & Cost Management**
3. **Healthcare and Benefits**
4. **Government Regulations**
5. **Information Systems** – *70% of respondents made this their least important issue*

*Reflects a disconnect in associating technology with the ability to address the most pressing business issues*



# BUSINESS PRACTICE VS. OPERATIONS

- ❑ Operations is often the recipient of bad business practices in Sales and Procurement
- ❑ Link category management & activity-based costing (ABC) with Operations
- ❑ Leverage ABC for True Profit and True Cost to Serve
- ❑ Manage the Critical Control Points:
  - ❑ Customer mix
  - ❑ Product mix
  - ❑ Cost controls



## DRIVERS OF COST & PROFITABILITY

- ❑ Activity-based costing (ABC) provides unique insight into the consumption of resources, linking activities and costs to expose a true measure of profitability for products sold & customers served
- ❑ All products/suppliers/customers not created equal
- ❑ Important component of category management
- ❑  $\text{Gross Profit} + \text{Earned Income} - \text{ABC's} = \text{True Profit}$



# CHARACTERISTICS OF CATEGORY PROFITABILITY

- ❑ High turns and minimal days in inventory
  - ❑ Product accumulates less operating cost
- ❑ Low cube
  - ❑ Absorbs less warehouse/truck space & less operating cost
- ❑ Handling efficiency
  - ❑ More cases can be handled at one time
- ❑ Assortment efficiency
  - ❑ Ideal product assortment for established customer base



# ABC X ABC RANKING

Rank Customers by Gross Profit \$ Contribution	
<u>Customer Ranking by Gross Profit</u>	
<b>A:</b>	65.0% Generating top 65% of Gross Profit
<b>B:</b>	25.0% With next 25% of Gross Profit
<b>C:</b>	<u>10.0%</u> With lowest 10% of Gross Profit
<b>Total</b>	<u>100%</u>

		Product Ranking by Velocity		
		A	B	C
Customer Ranking by Gross Profit	A	AA	AB	AC
	B	BA	BB	BC
	C	CA	CB	CC

Rank SKU by Velocity and by Customer	
<u>SKU by Movement Ranking</u>	
<b>A:</b>	65.0% Top 65% of SKU velocity
<b>B:</b>	25.0% Next 25% of SKU velocity
<b>C:</b>	<u>10.0%</u> Bottom of SKU velocity
<b>Total</b>	<u>100%</u>

**Ranking Sequence:**

**Action:**

AA	"A" customer buying an "A" SKU	Keep the SKU in stock at all times
AB	"A" customer buying a "B" SKU	Keep the SKU in stock at all times
AC	"A" customer buying a "C" SKU	Keep the SKU while working with the customer(s) to increase velocity or change to a SKU with higher velocity. Consider reducing the "Service Level" of the SKU
BA	"B" customer buying an "A" SKU	Keep the SKU while working with the customer(s) to increase velocity, increase sales and GP \$ or change to a SKU with higher velocity
BB	"B" customer buying a "B" SKU	Keep the SKU while working with the customer(s) to increase velocity, increase sales and GP \$ or change to a SKU with higher velocity. You may lower the "Service Level" of the SKU.
BC	"B" customer buying a "C" SKU	Keep the SKU while working with customer to increase velocity, increase sales & GP \$ or change to a SKU with higher velocity. You may lower "Service Levels" of the SKU below that of a "BB" SKU
CA	"C" customer buying an "A" SKU	Keep the SKU while working with the customer(s) to increase velocity, increase sales and GP \$ or change to a SKU with higher velocity
CB	"C" customer buying a "B" SKU	Keep the SKU while working with the customer(s) to increase velocity, increase sales and GP \$ or change to a SKU with higher velocity
CC	"C" customer buying a "C" SKU	If the customer and/or the SKU cannot be made profitable, then consider eliminating both and devote those resources previously being consumed to more profitable activities.



# EOQ/Receiving Expense Analysis

## Weekly Purchasing vs. Bi-Weekly or Monthly

Weekly Purchase				Bi-Weekly Purchase				Monthly				
Purchase	#	#Pallets	Cost/Pallet		#	#Pallets	Cost/Pallet		#	#Pallets	Cost/Pallet	
Week 1	5	1	\$2.75	Week 1	10	1	\$2.75	Week 1	20	1	\$2.75	
Week 2	5	1	\$2.75	Week 2				Week 2				
Week 3	5	1	\$2.75	Week 3	10	1	\$2.75	Week 3				
Week 4	5	1	\$2.75	Week 4				Week 4				
<b>Totals</b>	20	4	<b>\$11.00</b>	<b>Totals</b>	20	2	<b>\$5.50</b>	<b>Totals</b>	20	1	<b>\$2.75</b>	
<b>Cost Per Case =</b>			<b>\$0.55</b>	<b>Cost Per Case =</b>			<b>\$0.275</b>	<b>Cost Per Case =</b>			<b>\$0.138</b>	
<b>Expense to Gross Margin Calculation</b>		Monthly vs. Weekly reduces expense/case from \$.55 to \$.138 (\$\$.412 impact) Creates a <b>1.53% increase</b> in margin over average sell price!  How much effort does it take to increase 1.53% margin? How many items do you sell that fall into this category?										
<b>Avg Sell Price</b>	<b>Weekly / Case</b>	<b>Bi-Weekly / Case</b>	<b>Monthly / Case</b>					<b>Total Cases</b>	<b>7,280,000</b>			
\$27.00	\$0.55	\$0.28	\$0.14					<b>% in Category</b>	<b>5%</b>			
<b>% of sell</b>	<b>2.04%</b>	<b>1.02%</b>	<b>0.51%</b>					<b>Cases</b>	<b>364,000</b>			
								<b>Cost Opportunity</b>	<b>\$0.412</b>			
								<b>Expense Opportunity</b>	<b>\$149,968</b>			



# SLOT OPTIMIZATION

- ❑ **Slotting Coordinator-Optimizer Position** – Impacts warehouse thru-put improvements & reductions in inventory control losses.

## Key attributes:

- ❑ Understands the dynamic nature of warehouse flow and necessity of “fine tuning” slot locations for optimal productivity and minimal loss
- ❑ Warehouse “flow” including inbound pallets, forklift travel, selection travel and outbound pieces
- ❑ Inventory Control and the concept of “Stackability”
- ❑ Strong communication skills, especially with both warehouse and procurement staff
- ❑ This is a management-level position in most distribution companies including Sysco



# ESTABLISH KEY OPERATIONAL METRICS

## Use GL to extract key metrics : Start here...

- ❑ Warehouse cases per man hour: Inbound & outbound
- ❑ Errors per 1000 cases (Mis-picks and shorts tracked separately)
- ❑ Warehouse cost per case/as a % of sales, and as \$0.000 per piece shipped
- ❑ Pieces per trip/per mile/per stop
- ❑ Driver cases per man hour
- ❑ Delivery cost per case/as a % of sales



# WAREHOUSE OPTIMIZATION

INBOUND WAREHOUSE PERFORMANCE REPORT									Week Ending:	30-Aug-09
Direct Labor										
Day:	Inbound Cases	Inbound Pallets	Average Cases per Pallet	Inbound Regular Hours	Inbound Overtime Hours	Total Inbound Direct Hours	Direct Percent Overtime	Inbound Headcount	Direct Inbound CPMH	Direct Inbound PPMH
Sunday	0	0	0.00	0.00	0.00	0.00	0.00	0	0.00	0.00
Monday	21950	783	28.03	82.75	6.86	89.61	7.7%	12	244.95	8.74
Tuesday	32230	1078	29.90	92.00	13.20	105.20	12.5%	13	306.37	10.25
Wednesday	24958	768	32.50	89.02	4.52	93.54	4.8%	13	266.82	8.21
Thursday	29039	755	38.46	91.74	7.56	99.30	7.6%	13	292.44	7.60
Friday	35990	1051	34.24	92.00	14.10	106.10	13.3%	13	339.21	9.91
Saturday	0	0	0.00	0.00	0.00	0.00	0.00	0	0.00	0.00
<b>Weekly Total</b>	<b>144167</b>	<b>4435</b>	<b>32.51</b>	<b>447.51</b>	<b>46.24</b>	<b>493.75</b>	<b>9.4%</b>	<b>12.80</b>	<b>291.98</b>	<b>8.98</b>

  

Indirect Labor								Thru-put Calculation		
Day:	Support Regular Hours	Support Overtime Hours	Support Headcount	Supervision Hours	Supervision Headcount	Total Inbound Indirect Hours	Indirect Percent Overtime	Total Inbound Hours	Inbound Thru-put	Total Warehouse Thru-put*
Sunday	0.00	0.00	0.00	0.00	0	0.00	0.00	0.00	0.00	85.98
Monday	16.00	1.27	2.00	16.00	2	33.27	3.8%	122.88	178.63	103.51
Tuesday	24.00	1.95	3.00	8.00	1	33.95	5.7%	139.15	231.62	139.70
Wednesday	24.00	1.23	3.00	8.00	1	33.23	3.7%	126.77	196.88	113.20
Thursday	24.00	1.03	3.00	8.00	1	33.03	3.1%	132.33	219.44	122.95
Friday	20.70	4.24	3.00	8.00	1	32.94	12.9%	139.04	258.85	192.25
Saturday	0.00	0.00	0.00	0.00	0	0.00	0.00	0.00	0.00	0.00
<b>Weekly Total</b>	<b>108.70</b>	<b>9.72</b>	<b>2.80</b>	<b>48.00</b>	<b>1.20</b>	<b>166.42</b>	<b>5.8%</b>	<b>660.17</b>	<b>218.38</b>	<b>121.28</b>



# WAREHOUSE OPTIMIZATION

OUTBOUND WAREHOUSE PERFORMANCE REPORT										Week Ending:	30-Aug-09
Direct Labor											
Day:	Outbound Cases	Outbound Pallets	Average Cases per Pallet	Outbound Regular Hours	Outbound Overtime Hours	Total Direct Hours	Direct Percent Overtime	Outbound Headcount	Direct Outbound CPMH	Direct Outbound PPMH	
Sunday	30556	811	37.68	216.00	112.79	328.79	34.3%	28	92.93	2.47	
Monday	23385	623	37.54	239.99	49.82	289.81	17.2%	32	80.69	2.15	
Tuesday	18205	505	36.05	168.00	31.72	199.72	15.9%	22	91.15	2.53	
Wednesday	30916	818	37.79	248.00	92.26	340.26	27.1%	32	90.86	2.40	
Thursday	24546	692	35.47	208.00	69.09	277.09	24.9%	27	88.58	2.50	
Friday	9868	221	44.65	81.89	2.35	84.24	2.8%	16	117.14	2.62	
Saturday	0	0	0.00	0.00	0.00	0.00	0.00	0	0.00	0.00	
<b>Weekly Total</b>	<b>137476</b>	<b>3670</b>	<b>37.46</b>	<b>1161.88</b>	<b>358.03</b>	<b>1519.91</b>	<b>23.6%</b>	<b>26.17</b>	<b>90.45</b>	<b>2.41</b>	
Indirect Labor								Thru-put Calculation			
Day:	Support Regular Hours	Support Overtime Hours	Support Headcount	Supervision Hours	Supervision Headcount	Total Indirect Hours	Indirect Percent Overtime	Total Outbound Hours	Outbound Thru-put	Total Warehouse Thru-put*	
Sunday	8.00	5.60	1.00	13.00	1	26.60	21.1%	355.39	85.98	85.98	
Monday	8.00	1.27	1.00	16.00	2	25.27	5.0%	315.08	74.22	103.51	
Tuesday	8.00	2.15	1.00	12.00	2	22.15	9.7%	221.87	82.05	139.70	
Wednesday	8.00	2.57	1.00	16.00	2	26.57	9.7%	366.83	84.28	113.20	
Thursday	8.00	2.42	1.00	16.00	2	26.42	9.2%	303.51	80.87	122.95	
Friday	7.25	0.00	1.00	8.00	1	15.25	0.0%	99.49	99.19	192.25	
Saturday	0.00	0.00	0.00	0.00	0	0.00	0.00	0.00	#DIV/0!	#DIV/0!	
<b>Weekly Total</b>	<b>47.25</b>	<b>14.01</b>	<b>1.00</b>	<b>81.00</b>	<b>1.67</b>	<b>142.26</b>	<b>9.8%</b>	<b>1662.17</b>	<b>82.71</b>	<b>121.28</b>	
Total Markouts	Markouts per 1000 picked	Total Mispicks	Mispicks per 1000 picked	Total Shorts	Shorts per 1000 picked	Total Returns	Returns per 1000 picked	*Accurate calculation of Total Warehouse Thru-put requires that all Inbound and Outbound data be completed.			
Sunday	4	0.13	2	0.07	6	0.20	83				2.72
Monday	7	0.30	3	0.13	6	0.26	53				2.27
Tuesday	4	0.22	3	0.16	8	0.44	43				2.36
Wednesday	9	0.29	5	0.16	4	0.13	62				2.01
Thursday	6	0.24	4	0.16	4	0.16	64				2.61
Friday	2	0.20	1	0.10	3	0.30	29				2.94
Saturday	0	0.00	0	0.00	0	0.00	0				0.00
<b>Weekly Total</b>	<b>32</b>	<b>0.23</b>	<b>18</b>	<b>0.13</b>	<b>31</b>	<b>0.23</b>	<b>334</b>	<b>2.43</b>			
<b>Weekly %</b>	<b>0.023%</b>		<b>0.013%</b>		<b>0.023%</b>		<b>0.243%</b>				



# FLEET OPTIMIZATION

Company Name:		ABC Distribution				Location:		Heartland of America					
DELIVERY PERFORMANCE REPORT										Week Ending:		30-Aug -09	
Day:	Total Trips	Total Stops	Total Delivery Miles	Total Pieces Delivered	Total Delivery Hours	Avg. Stops Trip per	Avg. Miles per Trip	Avg. Pieces per Trip	Avg. Pieces per Stop	Avg. Hours Trip per	Avg. Stops per Hour	Avg. Pieces Delivered per Hour	Avg. Pieces Delivered per Mile
Sunday	12	98	5100	9868	216	8.17	425.00	822.33	100.69	18.00	0.45	45.69	1.93
Monday	38	371	14440	30556	627	9.76	380.00	804.11	82.36	16.50	0.59	48.73	2.12
Tuesday	29	341	11629	23385	493	11.76	401.00	806.38	68.58	17.00	0.69	47.43	2.01
Wednesday	22	198	11220	18205	418	9.00	510.00	827.50	91.94	19.00	0.47	43.55	1.62
Thursday	41	399	15580	30916	664.2	9.73	380.00	754.05	77.48	16.20	0.60	46.55	1.98
Friday	30	366	11970	24546	519	12.20	399.00	818.20	67.07	17.30	0.71	47.29	2.05
Saturday						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Weekly Total	172	1773	69939	137476	2937.2	10.31	406.62	799.28	77.54	17.08	0.60	46.81	1.97
		Hours Worked				Miles Driven	Gallons Used		Fleet Avg. MPG:		6.65		
		Regular	Overtime	Total Hours	Percent Overtime								
Delivery	2500		2500	0.0%	69939	Power	10525	Number Drivers on Payroll:		72			
Backhaul / Pick-up	396		396	0.0%		Refrigeration	2400						
Shuttle	41.2		41.2	0.0%		Total	12925	Number Drivers Worked:		68			
Total	2896	0	2896	0.0%	69939								



# COST DRIVERS YOU CAN IMPACT

Worker's Compensation  
Experience Modification

Ratio of Actual Losses  
To Expected Losses

# EMF

Payroll X Rate X EMF = Premium

Experience Modification		
Good	Average	Poor
0.65	1.00%	1.50%



# LOWERING YOUR W/C EXPERIENCE MODIFIER

- ❑ Improve Safety Performance
- ❑ Management Buy-In
- ❑ More Employee Safety Coaching
- ❑ Measure Safety Performance Indicators Instead of Accidents
- ❑ Correct Unsafe Work Conditions
- ❑ Provide Positive Feedback for Working Safely



# LOWERING YOUR W/C EXPERIENCE MODIFIER

- ❑ Promptly Report Accidents
- ❑ Complete Better Accident Investigations
- ❑ Use Your Established Medical Panel
- ❑ Implement Return to Work Strategies



# BUSINESS PRACTICE & CONTROL POINTS

## *Customer Mix - Product Mix - Cost Control*

- ❑ Intentionally shape an ideal customer portfolio to support long term financial requirements for future growth
- ❑ Market & sell the most profitable assortment of products
- ❑ Manage the activity-based drivers of product and customer cost in the system



# PROFITABILITY ANALYSIS BY MANUFACTURER

Distributor ranking of manufacturers based on true profit

Rank	Supplier	Sales	COGS	Gross Profit	Earned Income	Adj. Gross Profit	Selling	Delivery	Warehouse	Occupancy	Carried Interest	Total ABC Cost	True Profit
1	Prime Paper	2,404,881	2,010,205	394,676	108,377	503,053	6,645	42,693	92,942	18,667	4,214	165,161	337,891
2	Green Chemical	945,548	687,590	257,958	62,619	320,577	1,374	12,408	19,915	12,728	4,204	50,629	269,948
3	Kunzler	1,478,532	1,171,889	306,643	53,784	360,427	4,401	17,663	61,562	9,127	1,846	94,599	265,828
4	Total Produce	1,508,585	1,104,978	403,607	71,352	474,959	8,041	112,348	112,542	11,594	262	244,787	230,172
5	Farmland	1,316,528	1,092,071	224,457	85,848	310,005	3,360	16,057	47,372	13,350	3,740	83,879	226,126
6	Red Diamond	552,752	414,395	138,357	110,915	249,272	687	9,976	9,754	3,882	2,381	26,680	222,592
7	Timmons	1,531,376	1,326,145	205,231	120,139	325,370	3,831	28,225	53,725	14,694	4,024	104,499	220,871
8	Collins	2,621,195	2,379,095	242,100	13,137	255,237	1,462	17,363	20,721	9,163	13,937	62,646	192,591
9	Ventura	750,202	590,030	160,172	91,702	251,874	2,857	22,300	40,657	13,547	1,917	81,278	170,596
10	Forman, Inc.	729,595	524,889	204,706	46,141	250,847	2,209	20,232	32,477	25,609	3,131	83,658	167,189
11	Unilever	727,172	583,469	143,703	58,713	202,416	1,789	10,513	25,871	17,211	2,992	58,376	144,040
12	J.R. Simplot	1,479,644	1,223,987	255,657	81,846	337,203	6,654	71,667	93,025	19,344	2,589	193,279	143,924
13	Maid-Rite	905,813	730,449	175,364	49,207	224,571	4,001	16,846	56,031	11,925	1,852	90,655	133,916
14	AEP Industries	241,274	143,648	97,626	51,980	149,606	742	4,320	10,771	2,250	314	18,397	131,209
15	McCain	542,934	441,091	101,843	69,634	171,477	1,378	13,399	19,644	10,570	1,946	46,937	124,540
16	Florida Natural	401,166	313,061	88,105	55,382	143,487	853	6,059	12,002	4,087	698	23,699	119,788
17	Unipro	827,365	664,133	163,323	0	163,323	1,590	9,778	22,723	8,351	2,130	44,572	118,751
18	Penguin	743,044	609,487	133,557	4	133,561	368	4,551	5,274	3,901	4,217	18,311	115,250
19	Dot, Inc.	585,793	429,697	156,096	20,165	176,261	1,870	12,409	27,434	20,071	2,498	64,282	111,979
20	Sigma Int'l.	880,887	771,132	109,755	0	109,755	691	2,920	9,859	2,958	3,333	19,761	89,994
<b>Total</b>		<b>21,174,286</b>	<b>17,211,441</b>	<b>3,959,846</b>	<b>1,153,166</b>	<b>5,113,281</b>	<b>54,803</b>	<b>451,727</b>	<b>774,301</b>	<b>233,029</b>	<b>62,225</b>	<b>1,576,085</b>	<b>3,537,195</b>



# VENDOR RATIONALIZATION & SCORING

## Balance Quantitative vs. “Soft” Measures

- ❑ Identify broad, qualitative aspects of the vendor relationship to support decision-making process
- ❑ Apply a grading scale and scoring system based on specific criteria in the vendor relationship



# VENDOR SCORING MODEL

Grading Criteria	Grading Scale
Broad Product Line	<ul style="list-style-type: none"> <li>•Grade = 10 Meets 90% or more of category requirements</li> <li>•Grade = 8 Meets 80% - 90% of category requirements</li> <li>•Grade = 6 Meets 70% - 80% of category requirements</li> <li>•Grade = 4 Meets 60% - 70% of category requirements</li> <li>•Grade = 2 Meets 50% - 60% of category requirements</li> <li>•Grade = 0 Meets below 50% of category requirements</li> <li>•Add 4 Will pack product in a buying group label</li> </ul>
Order Entry & Shipping	<ul style="list-style-type: none"> <li>•Add 2 Electronically transmits product catalog change data &amp; pricing</li> <li>•Add 2 Receives orders electronically without personal intervention</li> <li>•Add 2 Electronically confirms pricing and quantities</li> <li>•Add 2 Electronically corrects order discrepancies at time of receipt</li> <li>•Add 3 Provides 24/7 online order tracking capabilities</li> </ul>
Pricing/Costing of Items	<ul style="list-style-type: none"> <li>•Add 2 Provides FOB pricing/reasonable pickup allowances</li> <li>•Add 2 Provides discount if broker support is not required</li> </ul>



# VENDOR SCORING MODEL

Grading Criteria	Grading Scale	
Customer Service	Add 2	Guarantees sale for new listings
	Add 2	Allows order add-ons up to X days prior to shipment
	Add 2	Pays bill-back claims within 14-30 days
	Add 1	Pays bill-back claims within 30-45 days
	Add 2	Provides 24 hour order tracking line (800 number)
Payment Terms	Add 2	Allows cash discounts through EFT program
	Add 2	Allows non-discount terms of 30 days beyond discount
Marketing, Trade & Supply Chain Support	Grade = 8	Active participant in category management program
	Grade = 8	Active participant in activity-based costing assessment & optimization
	Grade = 8	Provides market segment research & menu insight to drive operator-targeted product pull-through selling strategy
	Add 6	Supports adoption of uniform data synchronization & GTIN standards
	Add 6	Provides point of production geographic advantages
	Add 4	Provides regional consolidation center advantages
	Add 3	Provides 24/7 online order tracking capabilities



# VENDOR SCORING MODEL

Grading Criteria	Grading Scale	
Item Case Weights	Add 2	Less than 25 lbs.
	Add 0	25 to 50 lbs.
	Subtract 2	Over 50 lbs.
Average Cube	Add 2	Less than 0.75
	Add 0	0.76 to 1.10
	Subtract 2	Greater than 1.10
Item Packaging Quality	Grade = 10	Excellent (Product can be stacked 8 or higher, no packaging extends beyond pallet, minimal tears & leaks)
	Grade = 8	Good
	Grade = 5	Fair
	Grade = 0	Poor
Item Packaging and Shipping Technology	Add 2	Bar code readability exceeds 99% (limited roll-on codes)
	Add 2	Item ships in distributor required ties & tiers (EOQ)
	Add 2	Packaging designed to limit storage cube required
	Add 2	Product shipped with pallet labels if appropriate



# VENDOR SCORECARD

Vendor	TOTAL SCORE	Product Line	Order Entry	Pricing/ Costing	Cust. Service	Terms	Marketing & Spend	Pkg. Weight	Avg. Cube	Pkg. Quality	Pkg. Tech.
Vendor A	<b>54</b>	8	10	0	5	2	16	0	2	5	6
Vendor B	<b>44</b>	4	0	4	6	2	14	0	0	10	4
Vendor C	<b>39</b>	0	10	4	4	2	8	2	0	5	4



# COST TO SERVE CUSTOMER ANALYSIS

- ❑ Identify earned income-adjusted GP\$ by customer
- ❑ Net activity-based cost-to-serve from adjusted gross profit to determine true profit contribution
  - Order-taking/Selling cost
  - Warehouse labor & occupancy cost
  - Carried interest
  - Delivery costs



# CUSTOMER PROFITABILITY RANKING

*Rank customers based on contribution to profit*

Rank	Customer	Sales	COGS	Gross Profit	Earned Income	Adj. Gross Profit	Selling	Delivery	Ware-house	Occu-pancy	Carried Interest	Total Activity Cost	True Profit
1	Allendale Home	\$335,746	\$274,784	\$60,962	\$16,107	\$77,069	\$1,436	\$8,842	\$19,915	\$11,056	\$1,358	\$42,607	\$34,462
2	Marriott Hotel	\$132,201	\$104,782	\$27,420	\$7,852	\$35,272	\$529	\$3,732	\$7,305	\$2,271	\$331	\$14,168	\$21,104
3	Haley Nursing	\$104,823	\$78,487	\$26,336	\$5,048	\$31,384	\$412	\$2,979	\$5,762	\$2,148	\$316	\$11,616	\$19,768
4	Fresno Unit	\$147,417	\$121,631	\$25,785	\$8,719	\$34,504	\$630	\$4,027	\$8,796	\$4,532	\$592	\$18,577	\$15,928
5	ASE Retirement	\$183,893	\$155,097	\$28,796	\$8,785	\$37,581	\$761	\$4,178	\$10,637	\$5,517	\$749	\$21,843	\$15,738
6	Nursing Central	\$100,313	\$80,362	\$19,950	\$5,754	\$25,705	\$486	\$3,230	\$6,818	\$2,378	\$297	\$13,209	\$12,496
7	Ace Delivery	\$67,387	\$52,717	\$14,670	\$3,558	\$18,228	\$249	\$2,195	\$3,493	\$1,190	\$203	\$7,330	\$10,898
8	Valley Diner	\$101,627	\$82,429	\$19,198	\$4,583	\$23,781	\$469	\$3,013	\$6,605	\$2,765	\$338	\$13,190	\$10,592
9	US Home	\$70,288	\$53,770	\$16,518	\$2,508	\$19,026	\$323	\$2,237	\$4,563	\$1,621	\$215	\$8,957	\$10,069
10	Johnson Davies	\$60,392	\$45,987	\$14,404	\$3,294	\$17,699	\$269	\$1,864	\$3,843	\$1,626	\$201	\$7,804	\$9,895
11	Hilton House	\$22,745	\$12,389	\$10,356	\$821	\$11,177	\$61	\$453	\$920	\$449	\$57	\$1,940	\$9,237
12	Wood Center	\$88,612	\$72,829	\$15,783	\$4,866	\$20,649	\$429	\$2,903	\$6,024	\$1,843	\$249	\$11,447	\$9,202
13	Ship & Shore	\$104,628	\$87,001	\$17,627	\$5,060	\$22,687	\$473	\$3,113	\$6,627	\$2,948	\$358	\$13,519	\$9,167
14	Villa Orleans	\$86,929	\$71,592	\$15,337	\$5,105	\$20,441	\$436	\$2,778	\$6,089	\$1,764	\$251	\$11,319	\$9,122
15	Day Street Inn	\$75,298	\$62,792	\$12,506	\$5,852	\$18,359	\$353	\$2,470	\$4,944	\$1,824	\$202	\$9,794	\$8,565
16	Henry's Grill	\$35,967	\$25,054	\$10,913	\$1,484	\$12,397	\$136	\$1,314	\$1,939	\$635	\$66	\$4,091	\$8,306
17	Lakeside Park	\$46,655	\$35,914	\$10,741	\$2,510	\$13,251	\$178	\$1,350	\$2,535	\$1,221	\$175	\$5,459	\$7,793
18	Total Buffet	\$60,663	\$48,566	\$12,097	\$3,042	\$15,139	\$236	\$1,890	\$3,339	\$2,302	\$197	\$7,964	\$7,175
19	Park Institute	\$38,415	\$28,325	\$10,090	\$1,736	\$11,826	\$140	\$1,036	\$2,031	\$1,438	\$116	\$4,761	\$7,065
20	Hill Nursing	\$38,181	\$28,574	\$9,607	\$2,014	\$11,621	\$174	\$1,081	\$2,489	\$811	\$113	\$4,667	\$6,954
<b>Totals</b>		<b>\$1,902,181</b>	<b>\$1,523,084</b>	<b>\$379,097</b>	<b>\$98,699</b>	<b>\$477,796</b>	<b>\$8,177</b>	<b>\$54,683</b>	<b>\$114,674</b>	<b>\$50,339</b>	<b>\$6,386</b>	<b>\$234,260</b>	<b>\$243,536</b>

# COST TO SERVE CUSTOMER SCORING MODEL

- ❑ Measure and score customers based on cost-to-serve criteria:
  - ◆ Payment Terms
  - ◆ Order Entry Process
  - ◆ Delivery Frequency
  - ◆ Ease of Delivery Access
  - ◆ Returns & Credits
  - ◆ Meets Order Deadlines
  - ◆ Business Participation





# COST TO SERVE CUSTOMER SCORING MODEL

Grading Criteria	Grading Scale
Payment Terms	<ul style="list-style-type: none"> <li>•Grade = 10 Customer pays C.O.D.</li> <li>•Grade = 8 In-term customer with 7-day payment terms</li> <li>•Grade = 6 In-term customer with 14 day terms</li> <li>•Grade = 4 In-term customer with 21 day terms</li> <li>•Grade = 2 In-term customers with +21 day terms</li> <li>•Grade = 0 Any customer 3 or more days past due</li> <li>•Add 1 For ACH sweep</li> <li>•Add 1 For personal guarantee from owner</li> </ul>
Order Entry	<ul style="list-style-type: none"> <li>•Grade = 10 Customer places orders online</li> <li>•Grade = 5 Customer prepares order, but DSR sends order in</li> <li>•Grade = 5 Customer faxes order, but customer service keys in</li> <li>•Grade = 0 DSR prepares and sends order</li> <li>•Grade = 0 Customer calls-in order &amp; customer service keys in</li> </ul>



# COST TO SERVE CUSTOMER SCORING MODEL

Grading Criteria	Grading Scale
Delivery Frequency	Grade = 15 One delivery per week Grade = 10 Two deliveries per week Grade = 5 Three deliveries per week Subtract 2 Occasional unexpected deliveries: Truck or DSR Subtract 5 Frequent unexpected deliveries: Truck or DSR
Ease of Delivery	Grade = 10 Single drop at location Grade = 8 Multiple drops at location (three or less) Grade = 5 Multiple drops at location (more than three) Subtract 3 For specific time of day delivery demands Subtract 5 For use of stairs or elevator
Returns & Credits	Grade = 5 Infrequent returns and/or credits Grade = 3 Occasional returns and/or credits Grade = 1 Frequent returns and/or credits
Meets Order Deadlines	Grade = 5 Consistently meets order deadlines Grade = 3 Occasionally misses order deadlines Grade = 1 Frequently misses order deadlines
Business Participation	Add 2 Participation in quarterly business review Add 1 Participation in annual company event



# COST TO SERVE CUSTOMER SCORECARD

Customer Location	TOTAL SCORE	Payment Terms	Order Entry	Delivery Freq.	Ease of Delivery	Returns Credits	Order Deadline	Business Participation
West End Plant	<b>56</b>	<b>8</b>	<b>10</b>	<b>15</b>	<b>10</b>	<b>5</b>	<b>5</b>	<b>3</b>
Marriott Hotel	<b>31</b>	<b>6</b>	<b>5</b>	<b>5</b>	<b>8</b>	<b>3</b>	<b>3</b>	<b>1</b>
University Services	<b>19</b>	<b>2</b>	<b>5</b>	<b>3</b>	<b>5</b>	<b>1</b>	<b>1</b>	<b>2</b>



## ABC AS AN ONGOING PROCESS

- ❑ Observe activities that are performed within the company
- ❑ Understand how time and resources are consumed
- ❑ Understand the elements that influence cost
- ❑ Assess the value of activities relative to the company's overall strategy and the design of internal processes
- ❑ Determine if behavior and/or process design can be modified to improve efficiency or reduce cost
- ❑ Measure the profitability of products and customers with a deeper understanding of the true inter-related costs



# DISTRIBUTOR IMPLEMENTATION METHODOLOGY



- ❑ **Discovery** - Initial assessment process identifies existing opportunities to optimize profitability, efficiency, process reengineering and cost control
- ❑ **Analysis** - Quantifying in real dollar terms, the financial improvement available relative to the opportunities exposed within the business
- ❑ **Process Implementation** - On-site teaching of best practice disciplines to improve internal process, work flow, and behavior modification at multiple levels of the organization
- ❑ **Self-Sustainable Improvement** - The final deliverable of a fully-implementable category management/activity-based cost management process that arms the organization with the tools and disciplines to achieve continuous improvement in business practice, internal process, and financial control.



## Sources

- CC4F News
- IFDA
- Peter Drucker
- Technomic

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