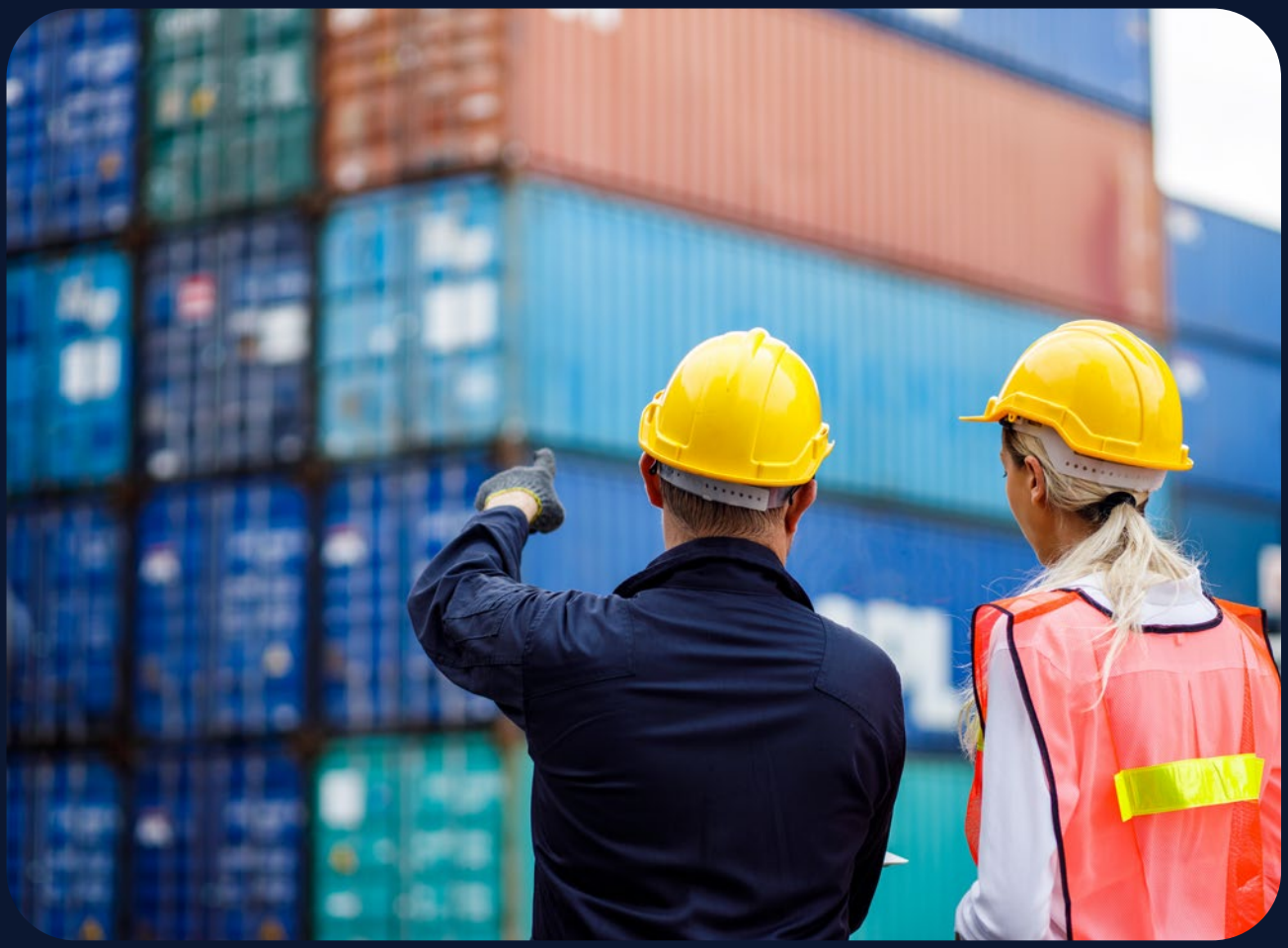
Analytics and KPIs to Combat Supply Chain Disruptions in 2023

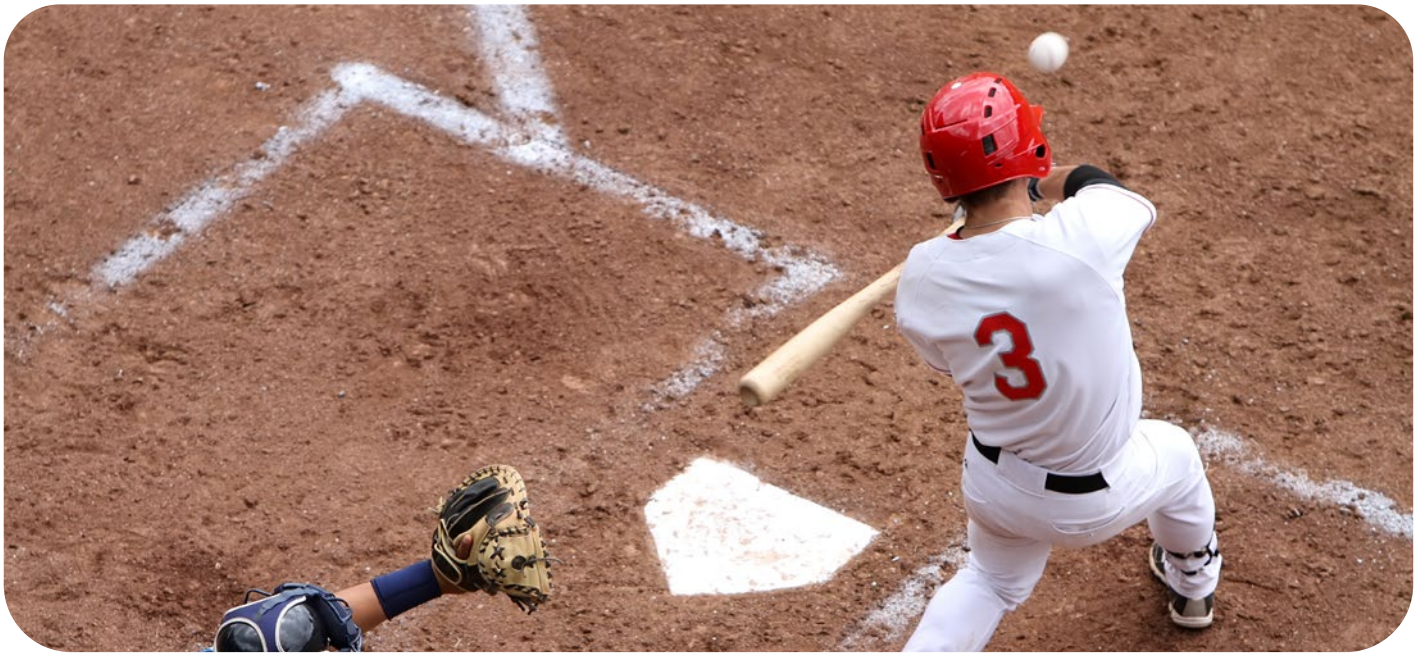


WHITE CUP

How the Vigilant Distributor Improves Business Performance in the 'New Normal'

In 2023, distributors will continue to see many of the challenges they have over the last three years. This includes supply chain disruptions, economic downturn, inflation, shifting customer and workflow dynamics and margin pressures. This is framing the mission at hand and underscoring the need to employ analytics and Key Performance Indicators (KPIs) to carefully manage performance and succeed despite these challenging market conditions. Think of this as a data-driven score card—vital to gauge performance during normal times, but even more critical when times are anything but normal.

For example, think of this as akin to the runs, hits, and errors metrics tabulation in baseball. If we were to draw a correlation to how the "playing field" is changing for distributors with the game of baseball, we can see how measurements would become even more critical when the distance between the bases changes, when the distance to hit a home run varies from the standard 325 feet up to 400 feet, and when the ball being pitched can be anything from a baseball, softball, or even a cantaloupe. Perhaps there might even be new metrics created to guide what "winning the game" execution involves.



Driving the Right Inventory Management Strategy

One of the age-old issues for distributors is dealing with "dead stock." Dead stock isn't really dead; it still has value, particularly in today's environment. Typically, you can sell dead stock for pennies on the dollar, but today, with prevalent supply chain disruptions, dead stock suddenly has newfound value. However, to cash in, distributors must take advantage of these opportunities immediately, if not sooner.

It's also important to know the velocity of your inventory movement; however, few distributors are leveraging a very valuable KPI for inventory: Gross Margin Return on Investment (GMROI).

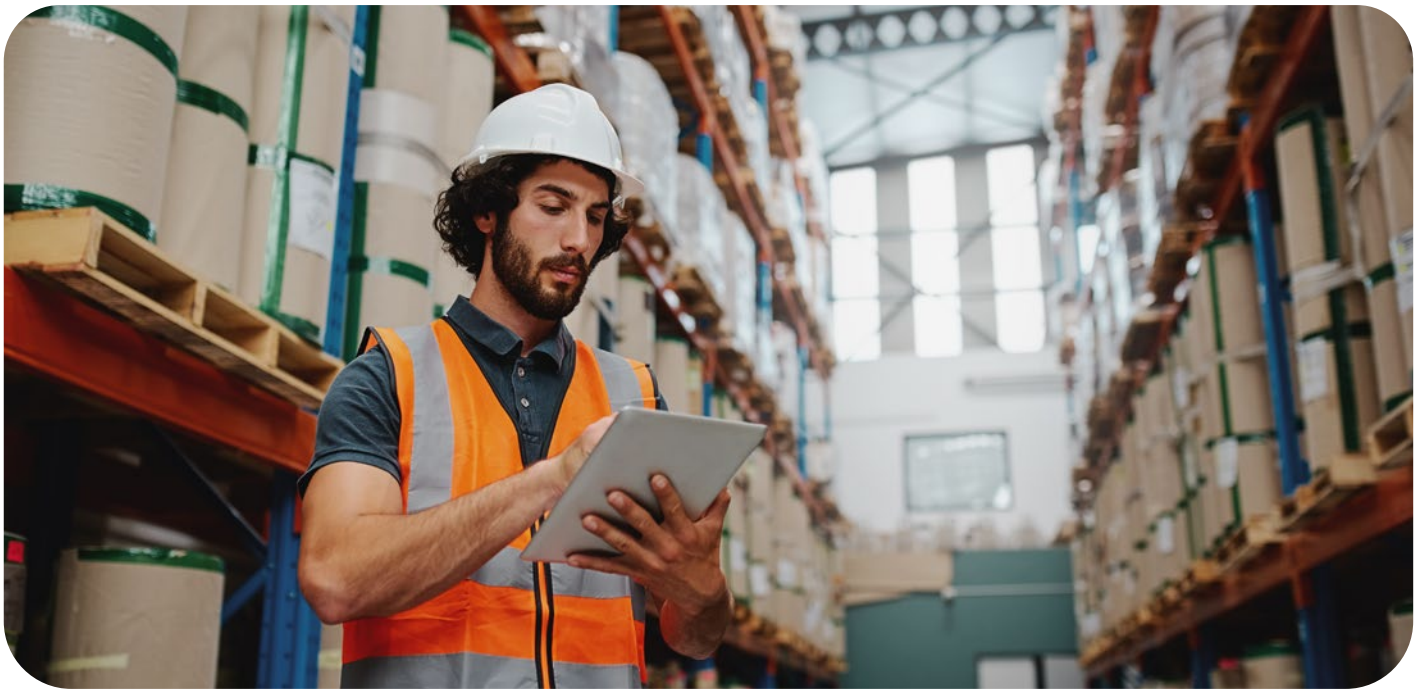
$$\text{GMROI} = \frac{\text{Sales - cost of goods sold}}{\text{Average inventory costs}}$$

This calculation can used across the enterprise, and within different product lines to determine if GMROI is above or below average. This benchmark can help you quickly identify and take action on items of below-average GMROI. There are three ways to improve GMROI:

1) Sell more, **2)** raise the sales price and, **3)** drive the inventory down.

Driving the inventory down through improved inventory management can provide excellent returns. With a robust Business Information (BI) tool, GMROI reports can provide the organizations with needed insights to guide inventory management strategies. If the GMROI number has dropped, it can indicate that you are carrying too much inventory. Maybe sales have doubled, but you have increased inventory three-fold. Alternatively, you may have excess inventory because sales have dropped. Whatever the case, excess stock is a "problem child"; you'll need to find somewhere to sell it or discount it to unload it. The real root cause issue can be recognized immediately if the data is presented in a way that makes trends very obvious.

You can also use GMROI to determine how much of an item you need to sell to make it worth your while to stock that item; think of this as your breakeven plus point. A vendor may offer you a certain discount to stock an item, but if you can't sell enough to make your average margin, then you can show that calculation to the vendor. It's these data-driven insights that can improve your vendor negotiating position.



What's more, by having this and other KPIs at your fingertips, you can confirm how well a vendor's products have performed to determine if you want to extend that vendor relationship to other products. You can also show if the vendor's products are generating lower margins than other products and if applicable, negotiate an additional discount.

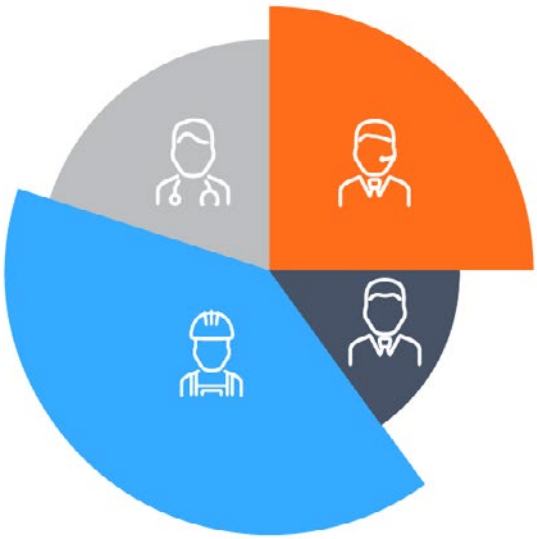
As you can see, there is an art and a science to leveraging management by KPIs. **Distributors that use GMROI in this way can improve their margins from 2 to 4 percent; if you have a company producing $100 million in revenues, that's another $3 million in your pocket.**

Analytics to Arrive at the Right Price and Profits

Distributors have been hit with fairly steep manufacturing price increases. In a White Cup survey conducted in 2021, 40 percent of companies were absorbing the entire increase, 27 percent were splitting it with the customer, and the others were passing it along in its entirety to the customer. But decisions in this area shouldn't be made arbitrarily; the use of pricing optimization tools can help with decisioning on whether to pass along some or all price increases to your customers.

The goal is to price items for maximum profit, which is different than pricing for maximum margin. More than likely, it's not advantageous to raise prices across the board. You want to focus on the strategy that will produce the most profit in the future. The focus may be on growth one year, on profitability in another year, and on reducing expenses in yet another year.

Once you determine this focus, you can segment your customers to determine which customers should receive priority treatment, and what can be done to grow and foster these customer relationships. This helps determine where you can make pricing adjustments by determining which customers are in alignment with your profitability goals. This type of analysis to assess the right pricing for your customer base can often result in making different choices as to which customers receives what discounts.



A modern CRM system will help gather detailed customer information, including the most efficient engagement channel, while the BI tool will provide other important data to feed your pricing optimization tools to position your organization most successfully for customer negotiations.

Measuring the Customer Experience

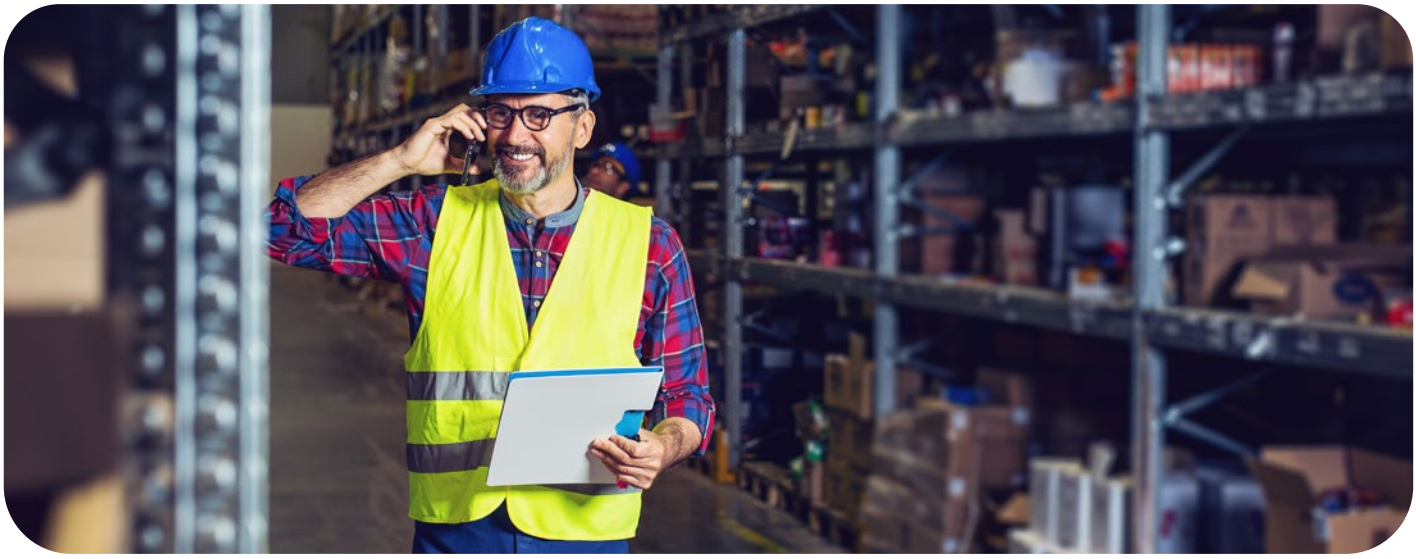
Disruptions are everywhere, most notably stemming from the fallout of the pandemic and the threat of recession. The reality is customers have a large source of suppliers; customers buy from you because of the bond that you've established and the value that you deliver. Underpinning this relationship could be inventory availability, convenience, efficiency, service or another value-add.

Today customers will compare their interactions with your company to all of their personal and professional interactions. Perhaps their interactions with Nordstrom or with Amazon—the bar is being set high and this realization can be daunting.

For distributors, what this means is that if a customer calls about a product, it's no longer good enough to walk back to the warehouse or to call the factory to see if you have it in stock. You're expected to know immediately if it's in stock and for that matter, any other type of information that a customer can readily find on the Internet. Now, more than ever, you need data at your fingertips; this data needs to be centralized so that everyone who needs it has access to the information.

In the last three years, companies have moved into a hybrid sales model, with digital engagement becoming much more important. The question is how to measure those levels of engagement—how do you know if the customer is satisfied when they are using your website or interacting with you via email?

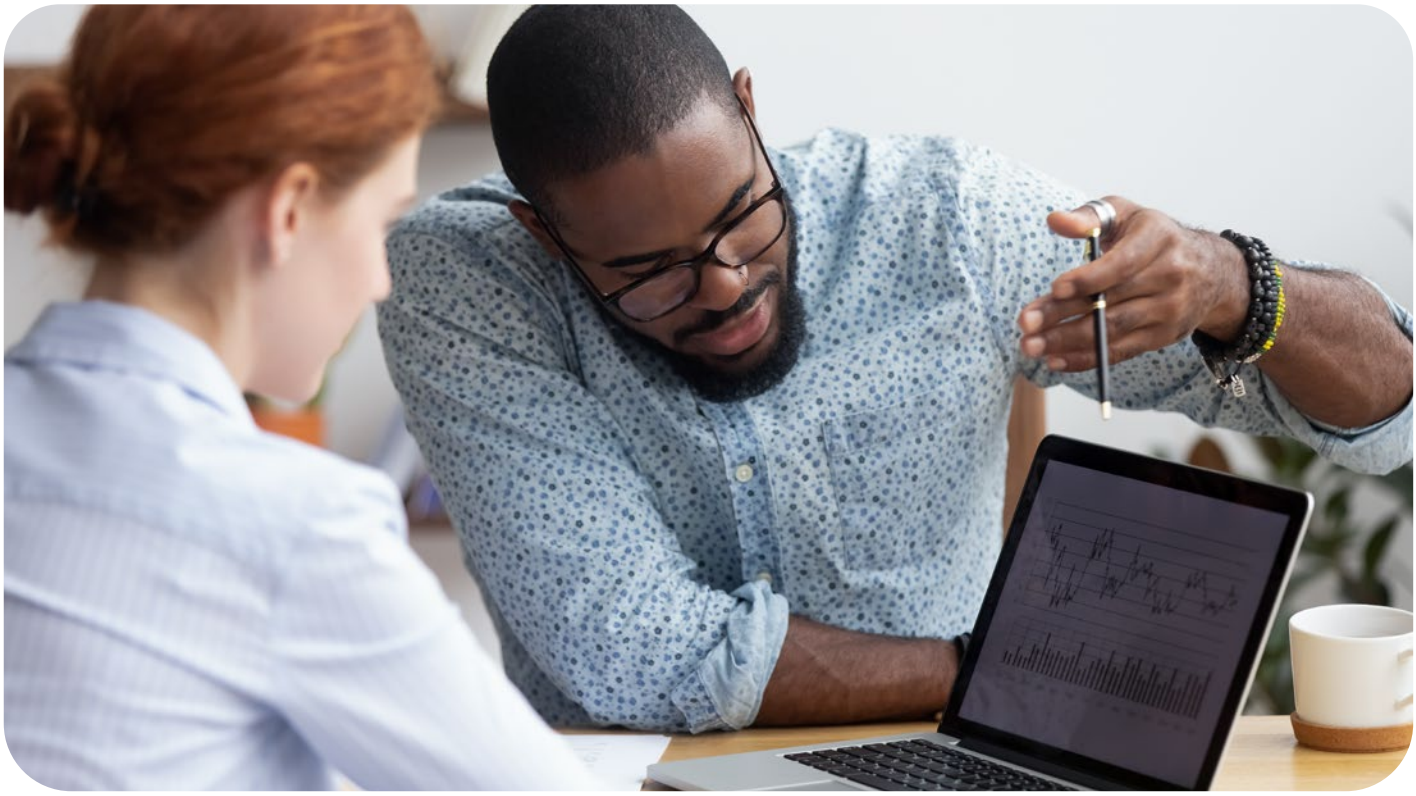
Among the methods to consider are customer satisfaction (CSAT), Net Promoter Scores, customer retention, online feedback/social media monitoring and customer effort/experience surveys.



Vigilant Distributors are Data-Driven

Vigilant distributors can improve business performance in the 'New Normal' of supply chain disruption. The key is to capture data and organize it in a digestible way to discover actionable insights. Once the actions are taken, measure the results, then keep repeating the cycle. The data and workflows can be shared across the organization, and this is where some real magic starts to happen.

There's no such thing as status quo in business; you're either moving forward or drifting backward. Agility in 2023 is being defined by having real-time visibility into every critical part of the business to make faster and better-informed decisions.



About Us

White Cup turns a distributor's sales pains into profit gains. Our CRM, Business Intelligence (BI), and Pricing software make it easier for you to sell more, keep more profit, and beat the competition. With over 20 years of experience, White Cup is trusted by more than 1,000 customers globally.

To learn more, visit whitecupsolutions.com.

Let’s Talk

Get in the Data-Driven Driver's Seat with White Cup Revenue Intelligence

In the distribution space, you are facing challenges never before experienced, and your customers are too. It's a whole new world that requires new strategies to unlock new sales opportunities and build relationships based on a deeper understanding of your customers' needs.

Ready to get in the data-driven driver's seat? White Cup's integrated platform consisting of CRM, Business Intelligence (BI), and Pricing enables distributors to make sense of their data and make business decisions that improve revenue performance. We can help you connect the dots of your data across critical business systems, revealing key insights via analysis, and provide the tools you need to take action for revenue improvement.