

Introduction

The wholesale distribution industry has maintained a steady share of the economy for several decades. The top-performing companies provide their stakeholders with excellent results: outstanding service for customers, rewarding job opportunities for employees, profitable growth for suppliers, and, of course, a strong return-on-investment for investors. The question is this: what makes the difference between average performers and top performers? The answer, at least in part, is that the best-of-breed wholesaler-distributors have made the transition to financial management thinking, the topic of this three-volume *Official Guide to Wholesaler-Distributor Financial Success*.

The good news is that any company can develop such a mind-set—at all levels—and thereby improve its bottom-line performance.

The purpose behind writing these books is to promote strong financial management in wholesale distribution businesses. Profit results improve for distributors whose teams have a strong financial orientation, as well as the traditional devotion to customers, suppliers, and employees, and, of course, enthusiasm for their products.

Strong financial management in a company can be achieved when each employee understands fundamental financial concepts. Volume 1—*Exploring the Financial Fundamentals of Distribution*—is the basic training portion of this three-volume set. Whether you are fairly new to the business world or have business experience but are brand-new to the wholesale distribution industry, volume 1 is perfect for you! The objectives of this volume are to equip you with the knowledge you need to read and use financial statements and to give you a solid understanding of how wholesaler-distributors are organized and how they generate profits. Regardless of your product line, customer base, geography, or

size, the *Official Guide* can help you understand how financial tools figure in management decisions and the vital role that financial management thinking can play in your wholesale distribution business.

Why Is Financial Management So Important?

A large gap exists between the profit performance of typical wholesaler-distributors and the best-of-breed companies. The typical distributor does well enough when business conditions are strong but tends to struggle during weaker periods in the business cycle. Many companies operate close to their break-even points or even lose money during economic downturns. For example, a mediocre distributor may become insolvent (run out of cash) due to operating losses or a catastrophe such as bankruptcy of a large customer.

The best-of-breed companies generate adequate profits under all economic conditions and earn outstanding returns when business is especially good. These top-quartile distributors (the most profitable 25% of all companies) can afford to invest in people, equipment, and technologies needed to increase their businesses. They can take advantage of opportunities such as buying other companies (acquisitions), offering new product lines and services, and opening more locations.

Our Hypothetical Wholesaler-Distributor

This volume of the *Official Guide to Wholesaler-Distributor Financial Success* begins with a virtual tour of a division within a fictitious national wholesale distribution company (chapter 1). The company's total sales are close to \$400 million. The company has a small corporate headquarters staff and, like many distribution businesses, each of the divisions is fairly autonomous.



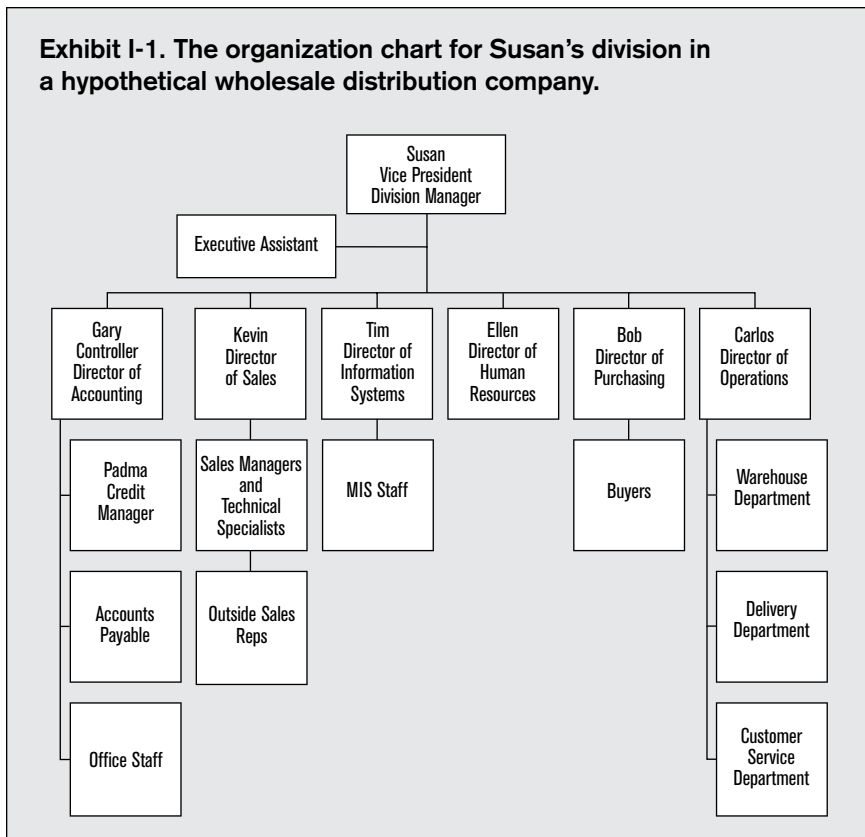
Susan, Vice
President and
Division Manager

Division manager and vice president Susan heads the largest of the company's 10 divisions. The virtual tour will focus on her division, which has annual sales of just under \$100 million, including those generated at a satellite location about 100 miles away. This means her division not only is the largest one in the company but would be considered a good-sized distributor if it were an independent entity. The division has 210 employees, including 170 at the main location and 40 at the satellite facility, including 68 outside sales reps, most of whom are on straight commission. Four sales manag-

ers oversee the outside sales staff and 30 customer service (inside sales) staff members. Four technical specialists support the outside sales reps.

Susan is empowered to make all of the day-to-day decisions for her division. She and her management team also make most of the strategic decisions, in accordance with the overall direction of the company. Susan's team presents an annual business plan for corporate approval, including a detailed sales forecast and operating expense budget, cash flow forecast, and capital expenditures budget. The corporate headquarters provides relatively few services to the division, other than company-wide insurance programs, marketing materials, and guidance on some legal and accounting matters.

Throughout the tour, you'll meet each department manager who will describe the activities that take place in that functional area and how the employees in that department contribute to the company's profits (exhibit I-1).



After the tour in chapter 1, you'll be introduced in chapter 2 to a financial model—a profit engine—to elucidate how wholesaler-distributors make profits. That chapter also explains the profit drivers and why some companies generate better financial results than others. This model will help you better understand the financial concepts that you learned during your virtual tour.

From there, chapter 3 will show you how to read and understand the three financial statements: balance sheet, income statement, and state-

ment of cash flows. The basic structure of the financial statements is the same for all distributors regardless of line of trade (the types of products the distributor specializes in). Wholesaler-distributors prepare and use financial statements to inform their stakeholders within and outside their company about the financial condition of the business and about the results of its operation.

In the back of the book, you'll find a valuable tool—a glossary of distribution financial terminology, which includes many of the terms used in this volume and others you'll find helpful. Additionally, chapters 1–3 conclude with a list of discussion questions to help you transfer what you've learned from our hypothetical wholesaler-distributor to your

own company. Taking time to answer these questions will pay off as you start your transition to more financially oriented thinking; and as you begin to see how your company makes its profits, how you contribute to those profits, and why profits are needed to stay in business.

Advancing to Volumes 2 and 3

After you've gained the basic training found in volume 1 and as you continue along your career, you may want to learn more about financial management through volumes 2 and 3 of the *Official Guide to Wholesaler-Distributor Financial Success*.

THE ACCOUNTANT'S TOOLBOX

Sprinkled throughout the book, you'll see a series of sidebars that look like this one. They provide an in-depth look into certain accounting and financial management concepts that can enhance your understanding and appreciation of the approach espoused in these volumes. These information capsules can equip you with the language and know-how you'll need to apply the approaches you'll be learning about.

Each chapter in the second volume (*Distributor Manager's Guide to Departmental and Branch Financial Excellence*) is about a specific department that you learned about in your virtual tour in volume 1. The managers discuss how they use financial knowledge and tools to manage their departments, with the ultimate goal being to run a wholesale distribution business that consistently performs in the top quartile of its line of trade.

Distributor Executive's Guide to the Art of Top-Quartile Financial Performance (volume 3) is more advanced and provides profit performance information for financially oriented wholesale distribution executives and other professionals in the company.

All right, let's get started on the company tour!