

# Introduction

Wholesale distribution is truly a game of inches with little room for error. It is a fairly risky business with a low return-on-sales, but it has the potential to deliver a very strong return-on-investment. Running a business by the numbers is not only for accountants and financial wizards. The premise behind the financial management theme of this three-volume work is that all wholesaler-distributors can aspire to top-quartile financial results. Financial management thinking is critical to success in running each functional area, including accounting, credit, human resources, and information systems as well as the traditional “big three” functions: sales, purchasing, and operations.

The purpose of this three-volume *Official Guide to Wholesaler-Distributor Financial Success* is to promote strong financial management in wholesale distribution businesses. Profit results improve for distributors whose team has a strong financial orientation, as well as the traditional devotion to customers, suppliers, and employees, and, of course, a fondness for their products. Strong financial management in a company can be achieved when each employee has a strong understanding of financial concepts. If you manage a department, a branch, a division, or even an entire wholesale distribution company, the chapters in volume 2—*Distributor Manager’s Guide to Departmental and Branch Financial Excellence*—were written for you! No doubt you already know how to read and use financial statements, and you possess a good understanding of how wholesaler-distributors are organized and how they generate profits. This volume goes several steps farther by demonstrating the value of using financial tools in making management decisions and the

vital role that financial management thinking can play in your wholesale distribution business regardless of your product line, customer base, geography, or size.

## **Our Hypothetical Wholesaler-Distributor**

If you've already read volume 1, you're familiar with our fictitious national wholesale distribution company, which reports annual sales in the neighborhood of \$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**

Susan heads the largest of the company's 10 divisions. Her division's annual sales are just under \$100 million, including those generated at a satellite location about 100 miles away, meaning that the division is not only the largest division but would be considered a good-sized distributor if it were an independent company. The division has 210 employees, including 170 at the main location and 40 at the satellite facility. Among the division's employees are 68 outside sales reps, most of whom are on straight com-

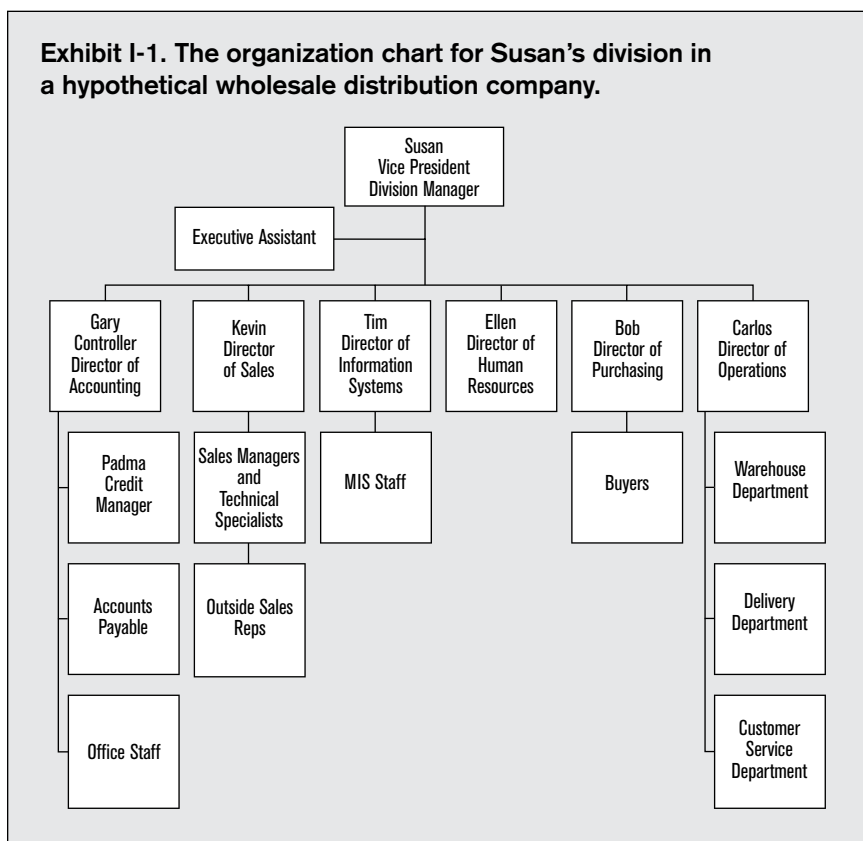
mission. Four sales managers oversee the outside sales staff. The 30 customer service (inside sales) staff members report to the director of operations. Four technical specialists support the outside sales reps.

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.

This volume gives you an opportunity to spend time with the directors of seven departments in Susan's division: sales, purchasing, operations, accounting, credit, human resources, and information systems (exhibit I-1). The last chapter is about Susan herself. Each of the eight chapters is devoted to one director's department and focuses on the financial management issues in that functional area.

One thing on the organization chart is about to change, however. Susan has determined that she no longer needs an executive assis-

**Exhibit I-1. The organization chart for Susan's division in a hypothetical wholesale distribution company.**



tant. The assistant spends part of her time assisting Ellen, the human resources director, and she is taking courses on marketing communications. Susan, like many senior managers in distribution and elsewhere, finds that her electronic tools enable her to be more and more self-sufficient. She thinks the budget dollars for her executive assistant could be better used in human resources and marketing communications rather than filing, making appointments, and taking phone messages.

## Putting Volume 2 to Work for You

I have not mentioned the name of this fictional company, nor have I revealed the company's line of trade. After telling you a little about the people (each one is actually based on a real manager, by the way), does it make sense not to tell you more? I think so, and here's why: We, at Evergreen Consulting, work with quite a number of wholesaler-distributors in a variety of lines of trade. We've learned that distributors in different

#### **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.

lines of trade have many more things in common than things that set them apart. That's why I'm going to leave the company's name and line of trade to your imagination. I'd like you to posit that this is your company, or one like yours, in your own line of trade.

Each chapter in volume 2 is about a specific department. As you move around the division, from one department to another, let each director show you how he or she measures results and manages people. Each person has a trick or two that may interest you, but the focus is on using financial knowledge and tools to manage departments, with the ultimate goal being to run a wholesale distribution business that

consistently performs in the top quartile in its line of trade.

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, all the chapters 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 the transition to financial management thinking.

### **Using Volumes 1 and 3**

Volume 1—*Exploring the Financial Fundamentals of Distribution*—is the basic training portion of this three-volume set; it's aimed at those who are fairly new to the business world or have business experience but are brand-new to the wholesale distribution industry. Here, in volume 2, you'll learn more about how the financial management approach can help you 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*, the third volume, is more advanced and provides profit performance information for financially oriented wholesale distribution executives and other professionals in the company.