

# Introduction

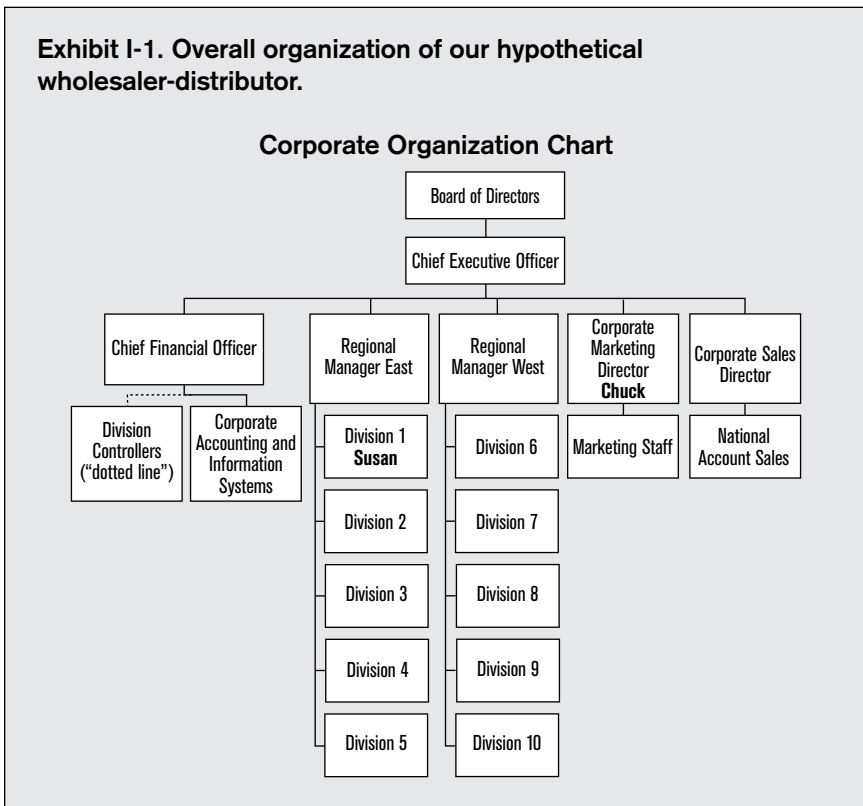
Welcome to the Distributor *Executive's Guide to the Art of Top-Quartile Financial Performance*, which introduces the most advanced topics in the three-volume *Official Guide to Wholesaler-Distributor Financial Success*. The purpose of volume 3 is to provide practical advice to wholesale distribution decision-makers about how to apply financial concepts. The goal is to help you reach and maintain top-quartile return-on-investment results year after year.

Some say that in the “good old days,” whenever that was, wholesale distribution was much simpler: “Buy low, sell high, collect fast, pay slow.” Somehow, managers in that era ran their businesses without the wealth of information we (and our competitors) now have at our disposal. The purpose behind writing these books is to capitalize on these information resources and 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.

## **Our Hypothetical Wholesaler-Distributor**

If you've already read volumes 1 and 2, 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 (exhibit I-1).

**Exhibit I-1. Overall organization of our hypothetical wholesaler-distributor.**

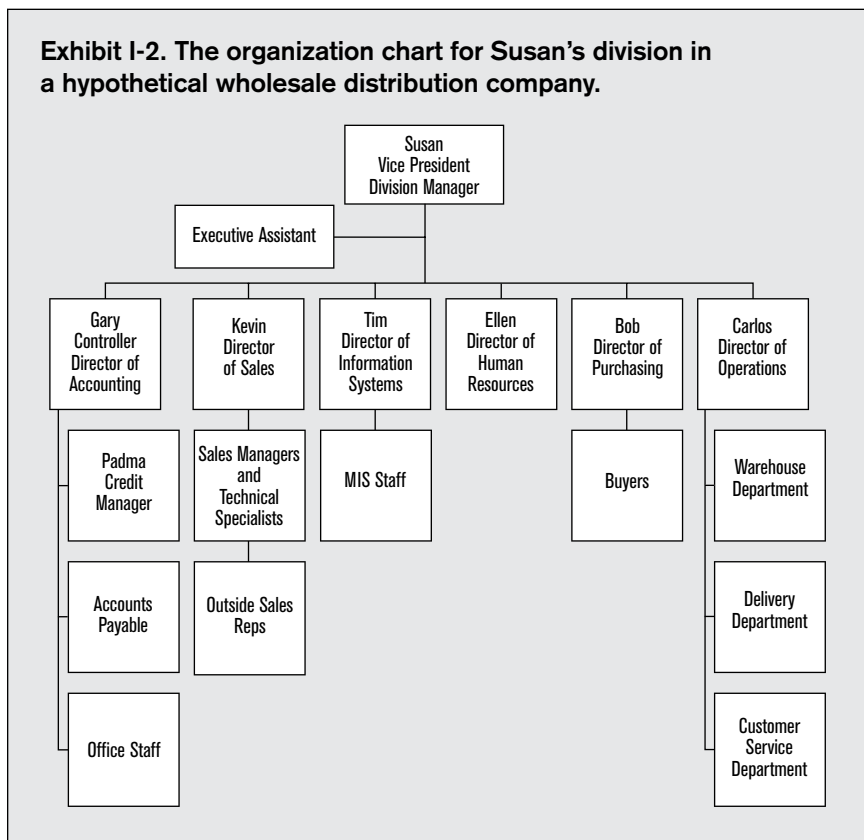


**Susan, Vice President and Division Manager**

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 commission. 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 (exhibit I-2) also make most of the strategic decisions, in accordance with the overall direction of the

**Exhibit I-2. The organization chart for Susan's division in a hypothetical wholesale distribution company.**



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 companywide insurance programs, marketing materials, and guidance on some legal and accounting matters.



Volume 2 gave 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. In chapter 5 of this volume, you'll also get acquainted with Chuck, the corporate marketing director.

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## Reality Check

I am a recovering accountant. But, as I tell the other bean counters at my Accountants Anonymous meetings, I'm also a recovering distributor. Many other certified public accountants have found their way into the world of wholesale distribution top management, but the fact is that the lion's share of distribution executives have come up through the sales department.

I am going to take my garters off and unroll my sleeves, put down my green eyeshade, and speak straight from the heart. Financial analysis isn't all that complicated, and it can be very interesting. If you are running a distribution business, if you expect to run one, if you own such a business, or if you are thinking of buying one, there are a few accounting and finance realities you must be aware of:

1. Wholesale distribution is a risky business, but it is possible to manage the risks.
2. The return-on-sales is small, so there isn't much room for error; however, through strong management, there is potential to make an excellent return-on-investment.
3. Distribution is a tricky game of managing people, turning assets, controlling expenses, and carefully utilizing leverage. Superior management requires the ability to act quickly on the basis of sound financial information.

What it comes down to is this: distribution is a game of buying, selling, controlling costs, and managing assets.

## The Financial Management Edge

Masters of the wholesale distribution game know how to use financial information to outplay the competition. Equipping you with that background is the goal of this three-volume work. *Exploring the Financial Fundamentals of Distribution* (volume 1) is for newcomers to the wholesale distribution world. Volume 2—*Distributor Manager's Guide to Departmental and Branch Financial Excellence*—is for department managers. The volume in your hands is for you if you're a manager, potential manager, company owner, or prospective owner who wants to know

even more about the financial tools of the trade. It presents the following financial topics, in a wholesale distribution context:

- strategic planning for distributors (yes, there is a difference)
- financing growth through acquisitions (yes, size matters)
- strategic pricing and customer profitability analysis
- lean distribution and other popular pathways to higher margins, cost reduction, and (of course) greater profits
- top-quartile performance statistics, benchmarking, balanced scorecards, economic value added, and other tools for measuring distribution management excellence.

#### **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.

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 1-5 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. You'll be able to see how your company makes its profits, how you contribute to those profits, and why profits are needed to stay in business.