White Paper

Plan to Profit: A Better Approach

Going beyond conventional "Order to Cash" processes to a forward-thinking "Plan to Profit" model

Introduction

Most would agree that you cannot, or should not, drive your car by looking in your rear view mirror. It is much safer and wiser to look forward and to focus on where you are heading or where you need to go. If we drive simply by looking through the rear view mirror, our journeys will not be too successful.

So, what does this have to do with today's distributors?

Distributors are managing their businesses with outdated processes created and supported by outdated software solutions. Some of these outdated solutions are the result of having purchased MRP (manufacturing) software back in the late 80's/early 90's and modifying them to a level such that they are unable migrate to newer versions. Now they are afraid to purchase modern software for fear they run into the same problem. Other distributors coded their own software and are under the incorrect assumption that this is exactly what they need.

Well, in both cases these distributors are putting themselves, their businesses and their employees at risk. They are not planning for growth; they are neither maintaining nor growing margin. They are slowly but surely being out maneuvered by the competition and will eventually lose their market position.

A new model has emerged that represents the real-world process that companies need in order to match or exceed expectations.

The process is Plan to Profit. This process replicates a company's operational and decision- making methods and actually delivers them a means to maintain margins and then increase them. As we describe this new approach you will notice that you are already familiar with the flow and its application,

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but it expands to provide deeper insights and understanding through robust software functionality.ever before, both B2B and consumer customers are empowered to make themselves heard. The voice of the customer is more powerful than ever before in leveling the competitive landscape – making it more important than ever to have a strong customer engagement strategy.

Order to Cash, or O2C

Order to Cash is a common approach to managing business; however, the name itself implies that neither profit nor planning is at the center of this management approach.

Let's quickly review the O2C process.

1. An order is placed by the customer
2. The order is entered in the system and approved
3. The order is picked/filled, whether a product or a service
4. The product or service is delivered to the customer
5. An invoice is created and sent to the customer
6. The customer remits payment
7. The transaction is entered into the general ledger
8. The vendor receives payment

It seems simple enough, but that's precisely the problem – it's too simple.

The truth is the Order to Cash process does not show a true picture of any transaction. It does not provide any visibility into profit and loss, margins, sales predictions, or future inventory requirements. O2C is merely a subset of the actual process a business needs to go through in order to be successful.

But There's More to it Than That

The O2C model, while currently an industry standard business process, is fraught with limitations because it has no built-in methodology for dealing with variables like:

- What products should be carried in inventory
- When to carry seasonally-related inventory
- What quantities to maintain
- Layered inventory
- Vendor-managed inventory (VMI) costs, where inventory is consigned by the vendor to gain a selling presence within a distributor without the latter paying for carrying costs
- Invoice VMI (vendor managed inventory), where the vendor generates a suggested replenishment order that is ordered and paid for by the distributor
- Rebates
- Dispute submission and resolution
- Manufacturers' return policies, refunds and deadlines

In other words, Special Price Agreements (SPAs), other Trade Agreements and Vendor Support Agreements are not taken into account.

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Looking Through the Rear-view Mirror

However, what may be the most adverse outcome of the O2C system is the lack of real-time data that will allow businesses to see trends and react to them before any real damage can be done. Because the eight steps of the O2C process work in isolation, the best c-suite leaders can do is to look at monthly or annual reports so they can see what the company's financial position is.

Business planning that relies on historical data reviewed and analyzed at year end is just like driving by looking in the rearview mirror – it is not going to get you where you need to go. At the very least, you won't get there on time!

The Unfulfilled Promise of ERP Systems

ERPs do an excellent job of streamlining workflow between various departments within an organization, but while they might contain vast amounts of distributor data, they often require third-party add-on report writers to mine the data held captive within the system. Due to complexities or lack of know-how, distributors are often unable to "slice and dice" the available data in a way that would give them insights into their business and help them plan for increased profitability.

Looking Forward

Each sale has its own profile which impacts margins, profit and loss. With no way of knowing you're going to meet the margin you're hoping for, you're out of control. You need a full system in place that shows a true picture of any transaction.

Getting to a true profit-based planning model requires evolving from a conventional O2C approach to a powerful business analysis/intelligence focus that will allow a company to find more effective ways to streamline their organization, increase profits and execute on initiatives that drive a competitive edge.

The way to accomplish that is with technology that supports collaboration of the entire supply chain and an organization-wide buy-in. In other words, Plan to Profit.

Plan to Profit, or P2P

A Better Approach

Until now it would have been difficult to use a Plan-to-Profit approach because software that would give the depth and breadth of functionality required was not available. Thanks to technologies that support P2P (the internet, integrated software for manufacturing, accounting, sales, finance, operations), businesses can now access data that gives them a 360° view of every transaction. Without that, they have no control over profitability until it's too late.

Plan to Profit goes beyond the ERP and provides real-time performance data and, in turn, actionable insights. Insights like:

- Accurate costs and margins
- Rebates and chargebacks
- Cost to serve both profitable and unprofitable customers

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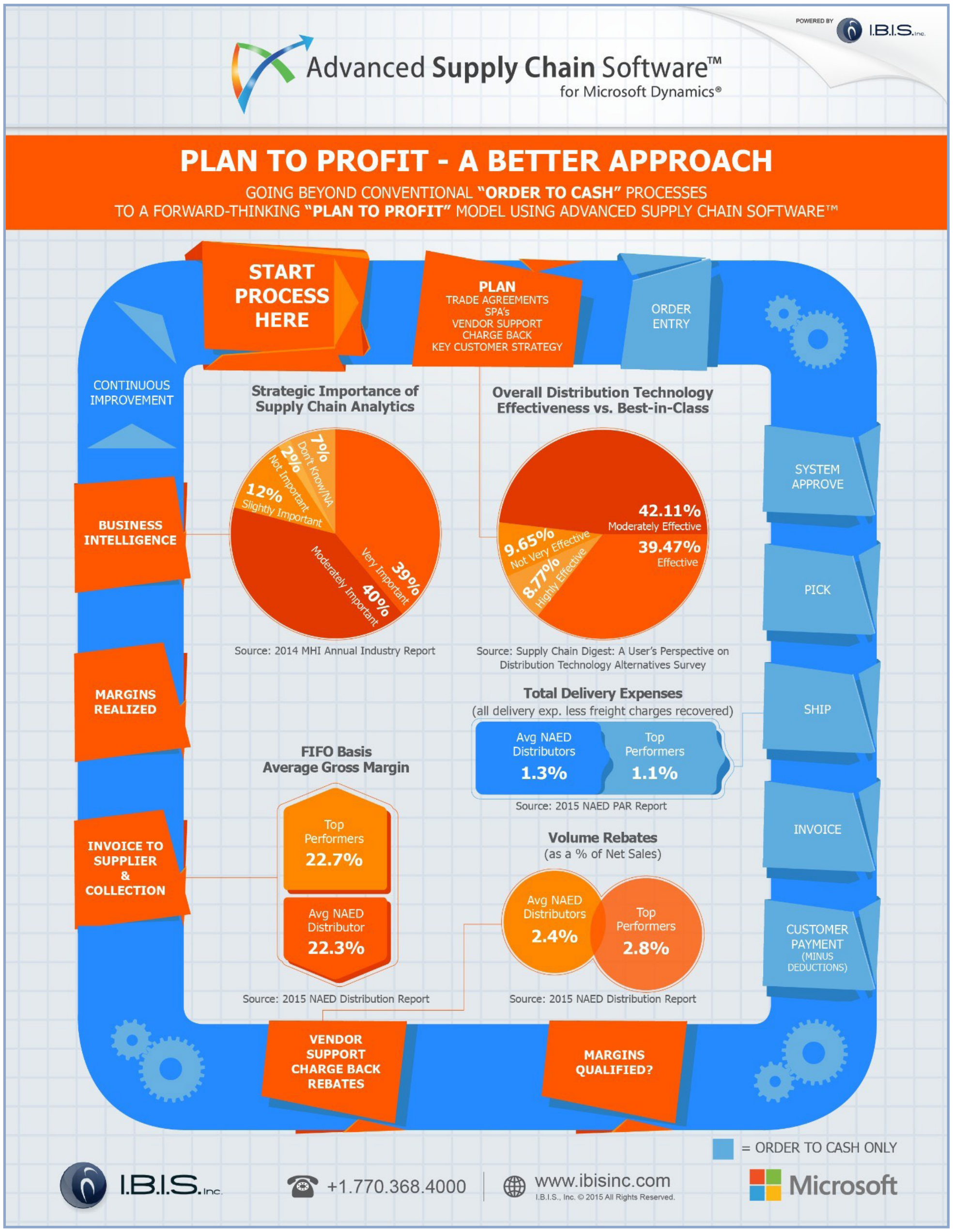
- Sales growth by customer
- What products the sales force should be focusing on
- Areas of margin erosion
- Validation of plans prior to execution



These specifics are made identifiable through collaborative input from customers, manufacturers, suppliers, vendors and internal resources. Only by pulling together information gathered from all parties can sales, profits and margins be accurately forecasted.

Connecting Systems, Processes and People

The steps to make it happen:

1. Contact your customers and ask them what level of support they can be counted on to provide in meeting next year's growth plans. Ask what new products they would be interested in purchasing.

2. Approach manufacturers and suppliers about upcoming new products. Learn when price increases will come into effect, what rebate programs will be offered, at what level volume discounts would apply, etc.

3. Ask vendors if they will be able to supply increased levels of product requirements based on your planned customer demand. Determine if you will require new/additional vendors in order to meet your growth objective.

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P2P in Action

Don Johnson is the CEO of a mid-sized wholesale distributor headquartered in North America and with extended plant operations in APAC and EMEA. While sales numbers over the past two years have been good, profits have been shrinking, Don believes that if his team works harder, they can realize 30% sales growth. He tells his management team to “make it so.”

In previous years, his team would have put in longer hours, added more sales incentives and then crossed their fingers. But, even if the numbers were met, at times the cost of sales would be so high that the profit margins were practically non-existent.

Not anymore. This year the management team has a new Plan-to-Profit planning and constraint management model that enables this company and its executive team to validate the high level plan of 30% by adopting the following steps:

1. Sales and Operations complete a planning/constraint management review process conducted by the full executive team to validate the plan.
2. All departments complete an operational review of plan and validate each of the elements.
3. Research and surveys confirm validation of customer support for new sales objectives.
4. Validation of vendor material availability is completed to confirm new forecast requirements.
5. Validation of total costs for materials is completed and contracts are locked in at acceptable prices.
6. Validation of expected margins for sales (based on costs, vendor support, rebates, incentives and more) is conducted.
7. New prices and margins are implemented for the new fiscal year.
8. Forecast is approved and executed on.

Results? A highly detailed, validated, realistic and achievable plan with clearly identified margins for the new fiscal year by which they can truly manage their business.

“Prior to implementing a “Plan to Profit” approach, we were flying blind in terms of profitability. We would celebrate great sales numbers, but once our books closed at the end of the year, we would be disappointed to learn that our profits had decreased considerably, meaning no bonuses and more belt tightening. Plan- to-Profit is more strategic, more competent and a much more accurate way of managing our business.”

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4. Ensure that internal infrastructures are in place. That is, talk to Finance about the company's ability to provide the capital required to support increased inventories so as to avoid stock-outs that could defeat sales targets. Have the operations team consider the increased pressure on warehousing and materials handling. Simply put, are you equipped to handle – both financially and physically – the burden of burgeoning inventories?

P2P Model

In the infographic on page 5, traditional Order to Cash actions are shown in blue. Overlaying and in addition to these steps, the orange boxes show how the Plan to Profit process goes above and beyond to allow businesses to know they are taking the right steps towards revenue growth.

Before an order is entered into the system, a strategy is already in place that will establish costs and margins so everyone knows ahead of time if a sale will be profitable. From there, decisions can be made as to whether an unprofitable client should be 'under serviced' or eliminated, or have their pricing increased. Conversely, special services could be provided to profitable customers.

The key: you have to have that information available before accepting a sales order so you can plan to profit!

After the transaction is complete, further analysis provides valuable information to:

1. Determine if margins were qualified
2. See how charge-backs and rebates affect profit/loss
3. Deliver business intelligence that will lead to continuous improvement so every order will meet margin expectation

P2P becomes a systems supported process that is iterative and repeatable every year prior to committing to any future plans.

Adopting a P2P Mindset

There is no question that in today's fiercely competitive drive for market share, companies have to be more diligent than ever to withstand ever- increasing pressure to keep margins sharp but still perform better. It is essential that they adopt a data- driven approach to marketing, sales and distribution so they can clearly understand what is driving growth and what is becoming a drag on profitability. Tracking and analyzing in real time is the only real answer to being able to make quick but solid decisions about change.

All over the globe, rich, specific data is analyzed by the business teams that are able to make decisions on derived insights. That direction is then shared with the divisions that can implement business process and even business model changes.

So what's stopping you?

Examples like the Omni Pricing side-bar (next page) demonstrate how adoption of a new way of doing things and new technologies help meet supply chain challenges in an ever-changing world. The time has come when, in order to remain competitive, companies must look beyond the traditional and time-worn O2C methodology and embrace modern processes that will point the way down a new path to knowledge-based pricing, improved margins and customer satisfaction.

In other words, a culture of thinking differently.

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Establishing a Culture of Analytics

The reason to establish an analytics culture is driven by economics – specifically, the ability to compete in this increasingly digital age. Adopting a Plan to Profit environment requires a cultural change that begins at the top and is embraced by all departments across the organization: sales, marketing, operations, IT and finance.

Establishing a dedicated analytics team is not the same as embracing a culture of analytics. In fact, a stand-alone analytics team may very well be set up to fail from the start. The entire organization must buy in to the analytics culture, as their input, usage and accountability to the process is essential. Organizational buy-in is predicated on systems that are easy to use, feature familiar interfaces, integrate seamlessly with other applications and provide the highest degree of data integrity.

"Distributors develop their culture of analytics out of a need to protect their bonuses."

- Allen Ray, ARA Associates 2015

According to Microsoft's Vison for Data and Insights, in the emerging data economy businesses will compete based on how they use data. Organizations are looking to:

1. Retain and attract top talent
2. Innovate business operations
3. Better target high-value customers
4. Bring more competitive products to market, faster
5. Create engaging customer experiences that build loyalty

To do this, uncovering deep, actionable insights can help businesses lay the foundation for success in the new digital era. The most successful companies have built a data-driven culture by embedding data and analytics into the very fabric of how they operate, enabling them to unleash the potential to drive significant business value.

To build a true digital, data-driven enterprise, organizations need to empower their employees and connect everything across their organization – people, processes, data, plans and systems.

One of the most powerful new concepts can be found in the democratization of data. In the not- so-distant past, data was packaged by a dedicated team, delivered to the c-suite, analyzed, parsed, and executed upon by the leadership. Only then was it distributed to the rest of the company in a report that few people would read. Now, as all levels of employees have access to a variety of data, the movement to empower people with easy-to-use analytics and visualization tools has escalated quickly. Insights are delivered to the people who can make smarter, faster and more informed decisions. By giving people the power to share knowledge across their organizations, and discover insights anywhere, businesses can be more responsive to both market changes and customer needs, allowing them to stay ahead of the competition.

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> *"In the emerging data economy, businesses will compete based on how they use data."*
>
> Microsoft: Our Vision for Data & Insights

Empowering employees is only one side of the story. A true digital enterprise is built when there is an inter-connected system where people, processes and systems enable a steady flow of data and insights.

Fortunately, technology advances have made infrastructure changes that support this data flow.

Advanced Supply Chain Software™ for Microsoft Dynamics® AX and Advanced Sales and Operations Planning™ work hand in hand to build a collaborative review and validation of a plan. After reviewing the costs of raw materials and confirming customer support for the expected sales increase, you can make the decision to financially support the plan through increased inventory levels, stocking capabilities and more.

Summary

Seven Questions for Consideration

Hopefully this paper has challenged you in your approach and processes addressing profit and margins. As you contemplate the forward-thinking Plan to Profit approach, here are key questions your executive team should address the next time you convene:

- Do we rely too heavily on intuition or instinct as we make decisions?
- Does our data provide us with actionable insights?
- Can we stratify our customer base by the growth or profit margins they deliver?
- Do we know what our customers want?
- Do we know where we want our salesforce to be focused?
- Do we have accurate cost to serve data?
- Do we have access to real-time data to inform decision making?

What will take your organization to the next level? How will you continue to beat out competition, this year, and next? Are you relying on the rear view mirror to drive your business forward?

Ready to grow your business?

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