



Customer and Product Profitability for Distributors



The most successful distributors manage their organization with a focus on **NET PROFITABILITY**, enabled by a detailed & fact-based understanding of the true profit contribution of every customer, product and sales channel.



Customer and Product Profitability

Distributors' efforts to differentiate themselves and compete in today's market have led to innovative changes and an increased ability to create value throughout the supply chain. At the same time, they have brought incredible growth in the complexity and scope of their operations. Managing this complexity requires the ability to understand the impact of each process performed and to gain transparency into the true cost and net profitability of each and every customer and product.

Legacy Distribution

- Transactional (pick, pack, ship)
- Operational efficiency and scale
- Credit management
- Logistics management
- On-time delivery

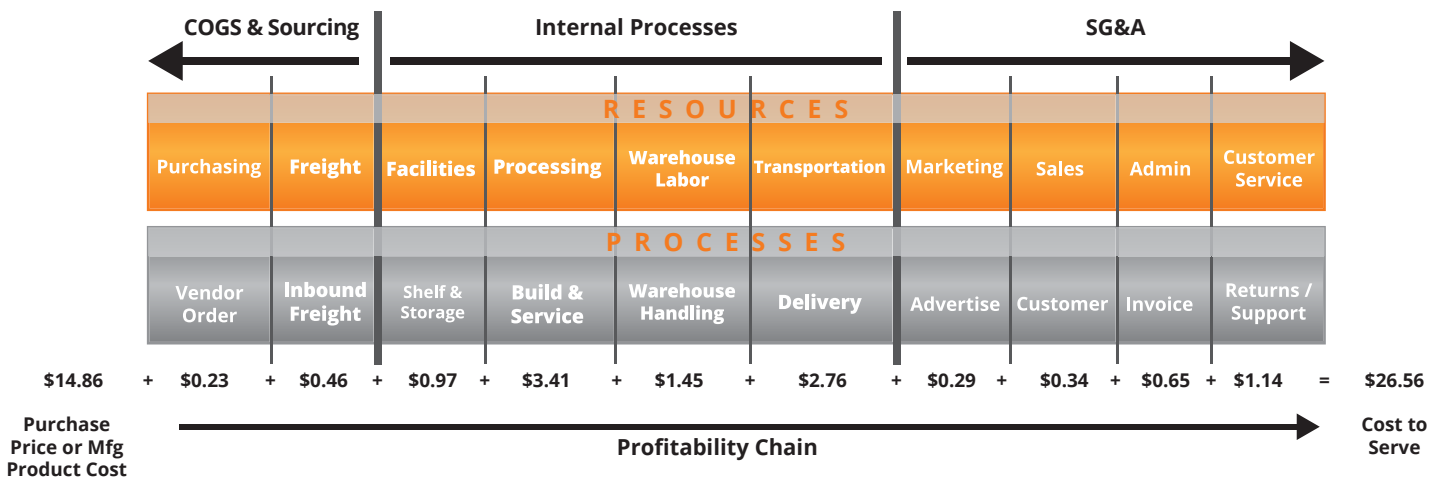
Value Based Distribution

- Technical specialization
- Product selection & excellence
- Channel & segment expertise
- Services [VMI, EDI, Returns, etc.]
- Sales & marketing

Solution Based Distribution

- Value add services & revenue
- End-to-end value provider [suppliers, customers]
- Analytics based sales & marketing
- Multi-channel proficiency

For every process performed, resources are consumed adding more cost to products and customers. The ability to create a clear and holistic view of costs across the organization is critical.



The ImpactECS platform is a flexible cost and profit modeling environment that gives distributors the tools to evaluate each data element and to easily aggregate them to provide meaningful end-to-end analysis of cost and net profitability across the organization and to drive better business decisions.

Cost-to-Serve (CTS) and Net Profitability Solutions

Cost and Profitability Analysis

A fully loaded, end-to-end view of cost and profitability across the entire organization

- **P&L statements for EVERY business dimension:** Customer, Product, Department, Process, Channel, Segment, etc.
- **Dynamic Analytics, Performance Metrics and Dashboard Reporting (BI):** Identify where, how, and why the company is making or losing money and direct business leaders on how to improve those situations

Operational Analysis

Cost center, department, process & activity cost across the entire organization

- **Process Cost Metrics:** Fully loaded cost of each process and service performed with KPIs and cost drivers for process cost analysis, benchmarking and implementation of best practices
- **Capacity Measurement/Analysis:** Activity and driver-based measurement of capacity utilization to support process improvement and resource staffing initiatives

Fully Loaded Customer P&L Shows Dramatically Different Net Profit Results Than Traditional Approach

Customer P&L: Traditional Cost Allocation			Customer P&L: Cost to Serve		
	Customer A	Customer B		Customer A	Customer B
REVENUE	\$10,000	\$10,000	REVENUE	\$10,000	\$10,000
Adjust (Rev%)	\$750	\$750	Rebates / Discounts	\$200	\$500
Cost of Sales	\$5,500	\$5,000	Order Terms	\$300	\$500
GROSS PROFIT	\$3,750	\$4,250	Production	\$5,500	\$5,000
Operating Cost	\$3,050	\$3,450	GROSS PROFIT	\$4,000	\$4,000
(% of Gross Profit)			Warehouse Handling	\$700	\$1,100
			Storage	\$200	\$600
			Transportation	\$600	\$1,100
			Sales	\$500	\$1,200
			Advertising	\$100	\$400
			Operating Cost	\$2,100	\$4,400
NET PROFIT (LOSS)	\$700	\$800	NET PROFIT (LOSS)	\$1,900	(\$400)



Net Profit Solutions Create Immediate Bottom Line Impact

Process Improvements / Changes

Improve product flow decisions, identify best practices, analyze capacity and optimize staffing, and prioritize service levels to reduce operating costs

Reduce OPEX: 2-3%

SKU / Supplier / Category Optimization

Improve category management, SKU & supplier optimization and rationalization and inventory management to increase sales and gross margin

* Additional potential revenue increase of 2-5%

Increase Gross Margin: 1-2%

Supplier Negotiations

Reduce COGS through vendor negotiations and competitive line reviews, benchmark suppliers. Reduce operating costs by understanding total supply chain cost and through collaborative supply chain planning

Increase Gross Margin: 1-2%

Reduce OPEX: 1-2%

Customer Negotiations

Increase sales and gross margin through customer negotiations, sales force incentives, break-even pricing, and Cost-to-Serve pricing methodologies

* Additional potential revenue increase of 2-5%

Increase Gross Margin: 3-5%

Activity based management solutions can help companies achieve a 3-5% reduction in overall cost structure and a 5-15% increase in revenue through enhanced focus on higher margin products and pursuit of better markets.

Source: Accenture, CFO Project Vol 2, October 2003

About 3C Software



Founded in 1988, 3C Software has become the leading provider of cost and profitability systems to a wide range of industries. With over 600 installations in North and South America, Europe, Asia, and Australia, the ImpactECS platform gives business leaders the tools needed to build dynamic models to support the unique and complex analysis required to effectively manage their business.



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