Wholesaler Seminar

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Designing and Conducting a Re-Route of Distributor Sales and Delivery Systems

By Lamont Seckman

The sales and delivery route system of a distribution company is a little like a family home.

Most beginning families start off with smaller homes that meet the needs of busy adults with either few or very young children. As time passes, rooms are renovated, basements are re-finished, and the house may even have additions made to accommodate family growth and changing needs. However, at some point, the family realizes the beloved home is no longer sufficient and that it is time to move on.

Is it Time to Move On from Your Current Route System?

Similar to a home, a distributor's sales and delivery route structure can resemble a patchwork of additions, renovations, and re-finishings. Territorial acquisitions, brand additions, and the organic growth of a business are many times folded into an operation much like a family re-locates its office downstairs to make way for the baby furniture. And certainly, such accommodations make sense…for a while. Businesses, as well as families, can thrive for a time without any fundamental modifications to core systems. However, the many small changes made over the years accumulate and systems tend to "evolve" into convoluted structures that are ineffective, inefficient, and out-of-date with current conditions. At some point, a business - like a family - needs to move on.

If your business has experienced significant change (i.e. brand acquisitions, consolidations, or organic volume changes of five to ten percent or more in just a few years), it is likely your sales and distribution system could benefit from a "razing" and new home construction (i.e. a complete re-route). A re-route is an excellent opportunity to "cleanse" a distributor operation of the slop that inevitably creeps into any system that has been in place, relatively unchanged, for a period of years.

Unfortunately, many companies waste such opportunities. They are wasted primarily because of an under-estimation of the importance and complexity of designing and implementing an effective and efficient system. In many cases, this results in something resembling a 52-card shuffle: the deck of routes and accounts are shuffled like so many playing cards, but the company essentially ends up with the same 52 cards, perhaps in a slightly different order. If your company has re-routed and, looking back, you can see the core of the sales and delivery route system wasn't really impacted, you have missed a significant opportunity to make positive change.

In fact, for many wholesalers in need of re-routes, two seemingly contradictory objectives can often be achieved. First, it is not uncommon for operating expenses to be reduced by at least five percent. At the same time, if designed and implemented properly, a re-route can also result in a more effective sales and delivery system.

Delicate Balances

A comprehensive re-routing of a distribution operation involves a series of delicate balances.

Overall, a re-route is the delicate task of balancing the internal strengths, resources, and return requirements of the business with the unique opportunities and challenges of each individual marketplace.

Internally, the competing interests of sales and operations need to be balanced. Sales managers often have more influence in corporate decisions than managers of other functional areas. This dynamic can result in route system designs too heavily influenced by sales concerns and too little focused on cost considerations. Most sales managers are compensated based upon sales. Why would it be expected that managers would suddenly abandon a sales-driven mentality just for a re-route? If no senior managers are compensated by – and oriented toward – profit, than such input must be provided into the re-routing process from ownership or another source.

Another balance that needs to be considered concerns the priority of optimization. Most companies assume the appropriate methodology is to develop optimal sales routes first, with delivery routes then designed to support the sales system. In reality, it's not so simple. The delivery system is more expensive than the selling system. Therefore, it makes sense from an operational/cost standpoint to have delivery optimization as the top priority. This philosophy, of course, requires certain changes be made to account service method, days, and times. It is a balance to optimize delivery while minimizing negative impacts from a customer service/sales standpoint – but such a balance is vital to optimizing profitability.

Profitability will be a function, in part, of the company's formalized service policy which serves as a guide for how accounts will be sold, merchandised, and serviced. If such a formalized approach to service is not being utilized now, owners should demand it! A formalized service policy, reflecting the agreed upon strategy for tackling the retail market, coupled with realistic time standards developed for account activities, will define total workload and manpower requirements.

System Design Should Support Strategic Objectives

A frequent mistake owners make in re-routes a classic "cart-before-the horse" mistake. Owners often direct employees to begin creating new sales, delivery, and merchandising routes prior to arriving at numerous key strategic decisions that will, in fact, directly impact route design. Back to the home analogy, this is akin to asking a builder to construct a home without a blueprint. *How can you expect to get what you want without telling the builder how many bedrooms, what total square footage, lot size, neighborhood, etc.?* Indeed, if the resulting home is satisfactory, it is only due to blind luck.

Some distributor owners are plagued with a kind of "victim" mentality and believe that distributor financial performance is more or less out of their control.

This view garners the notion that gross margins are highly impacted by local market factors and supplier activities – both of which are largely outside the distributors' sphere of influence. Similarly, operating expenses are largely perceived as uncontrollable. Oh sure, the thinking goes, some things can be impacted, but for the most part a distributor's cost structure is dictated by the volume of cases delivered and the number of retail accounts serviced. And, therefore, not much can really be done to increase operating efficiencies.

Such a defeatist attitude becomes readily apparent during a re-routing project and places artificially low expectations on process outcomes. In addition to being unhealthy, this thinking belies the reality of like businesses exhibiting wide variances in operating expense structures and margins.

Owners moving forward with re-routing projects need to begin with an appreciation of the potential positive impacts successful re-routes can have on operating performance. Otherwise, they risk missing opportunities at best. At worst, a poorly designed and implemented re-route can have significant negative effects on business operations.

In my experience, companies conducting the more successful re-routes have done so by bettering the alignment of the following two critical factors:

1. Corporate Strategy is better aligned with Ownership Objectives.
2. Internal resources are better aligned with real and defined market opportunities.

Aligning Strategy with Ownership Objectives

It is very difficult for your management team to design an effective and efficient system if the end goal is not made entirely clear. The first step in the re-route process is to arrive at – and clearly communicate – ownership goals and expectations. Remember, the system should be designed to support ownership goals and strategic objectives. *What are ownership goals for the re-route? Is the main goal to improve customer service? Is it to create a re-balancing of route volumes? Is the main goal to drive volume and market share? Or to improve profit? Or is cost-reduction the main target?* Many re-routes will have multiple objectives. These objectives should be prioritized with appropriate parameters developed as guidelines. For example, *if cost reduction is a main objective, what are post-implementation targets for operating expenses per case? What are full-time equivalent (FTE) headcount targets? If the main objective is market share growth, how much share is expected and when?* Growth objectives should be accompanied by return-on-investment (ROI) analyses. For example, *what is the firm's historical ROI? What ROI is expected in the short-term after implementation of the new route system? What ROI is expected in the long-term after market share growth goals have been obtained?*

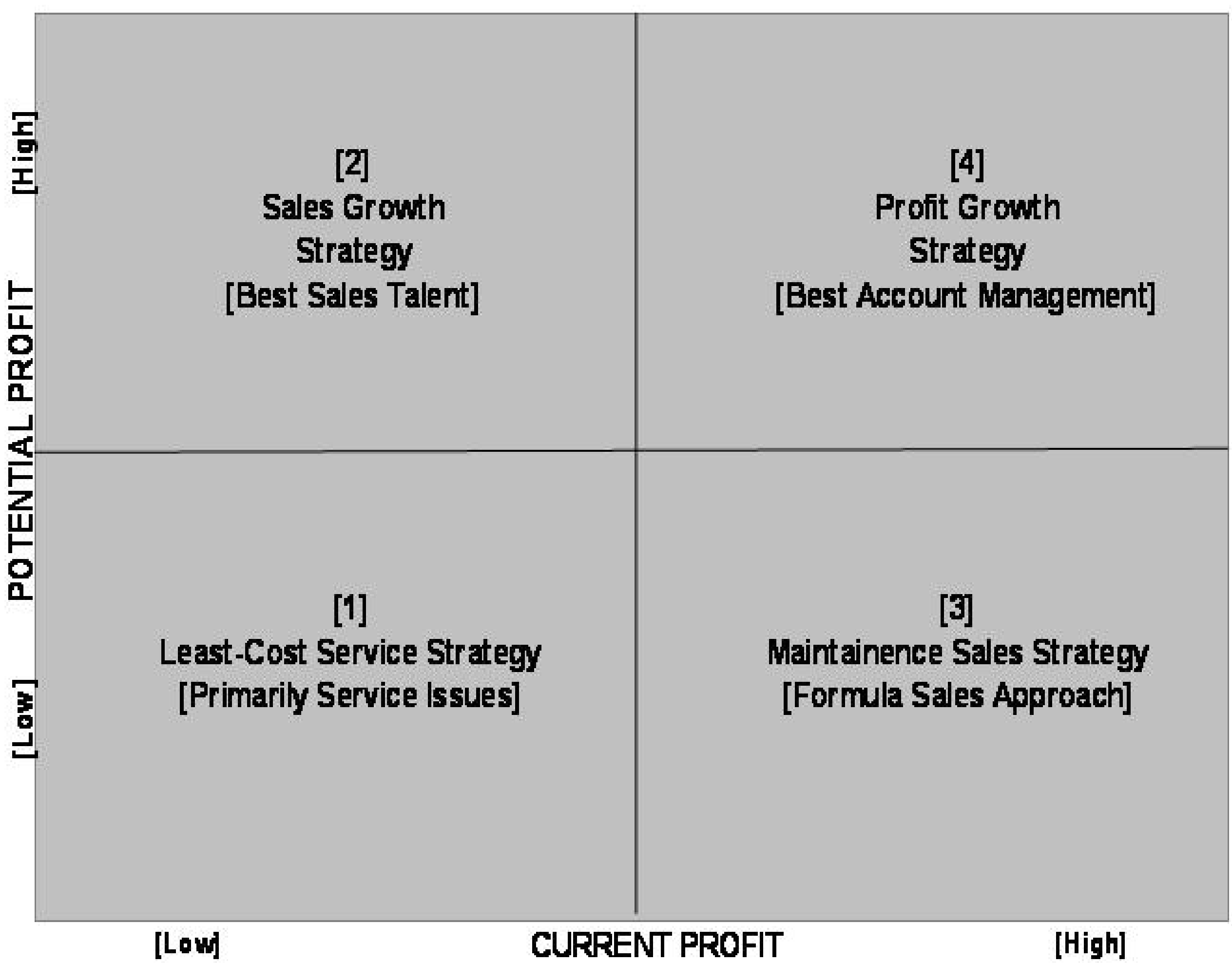
ROI is, in fact, a starting point and a main consideration that should drive all re-routing projects. More owners should become knowledgeable of their company's historical performance in this area and how this compares to industry standards - and to possibilities.

If the business underperforms in ROI measurements, what can be done in the re-routing process to bring the company up to standard? If the company's main objective in the short-term is to drive volume, it is logical to tolerate a lower ROI in the growth years. But as the company achieves its volume targets, what ROI levels should follow? How long should this take? Most importantly, based upon the answers to all of these questions, how will retail account service policies and corresponding manpower plans be modified to develop an appropriate operating expense structure and approach that will support the objectives?

Aligning Resources with Market Opportunities

As loyal readers of my column are well aware, most accountants savvy in the ways of activity-based-costing can demonstrate that significant portions of a distributors' retail account base are actually serviced at an economic loss. This phenomenon is a reality in many distribution – and other business - environments. And let's face it, **many business owners would find it prudent to eliminate unprofitable customers** – an alternative generally not available to the typical beer wholesaler. However, wholesalers do have the ability to differentiate service methods and frequency to better match service costs with the return [and potential return] available from retail channels.

The Account Service Matrix



Service differentiation is in fact a key to managing profitability. Many distributors provide little differentiation in service to their customers – perhaps because such an approach seems ominous when dealing with thousands of retail accounts. However, begin by breaking down the account base into its logical components and understanding how service differentiation can be developed based on more manageable numbers.

The Account Service Matrix provides a method of classifying accounts for strategic purposes.   The accounts are classified according to current and potential increases in profitability. The quadrants on the left side of the matrix represent those accounts with low or no profitability. The quadrants on the bottom half of the matrix are those with low potential for incremental profit. The process of assigning accounts – or account groups – to their appropriate quadrants can lead to meaningful discussions of appropriate service strategies, methods, and frequencies. This, in turn, leads to planning for the quality and type of sales, merchandising, and delivery personnel assigned to the account. For example, accounts lacking profit and little possibilities for meaningful improvement [Box 1] should be viewed differently than those not making money now but having profit potential [Box 2]. The appropriate strategy for Box 1 accounts is perhaps one of least-cost service. Because we cannot sever the relationship with such accounts, we should at least minimize our losses. We can minimize losses in these accounts through reduced service frequencies, implementation of cost-effective systems such as driver-sell or tel-sell, by reducing time commitments in the accounts, and by reducing POS and merchandising levels – among other things.

Box 2 accounts need to be treated differently. They may require an investment to generate the potential profits. Perhaps savings accrued from changes to Box 1 accounts can be channeled into accounts with profit potential. In this way, no additional investment is required – resources are simply reallocated.

While Box 3 accounts generate profit there is little room for improvement. Cost minimization is not the primary strategy in these accounts, however, neither do we want to invest. Likely, the primary strategy here is to maintain the favorable sales situation while secondarily exploring some limited efficiency gains. These opportunities may offer the only profit improvement potential as sales growth in the accounts is limited. Box 4 accounts offer both current profitability and opportunities for incremental profit. These accounts will typically demand our best account managers – those that can effectively grow the business, but do so profitably.

Developing a thorough understanding of account service differentiation, and its effect on the overall operating cost structure, is critical to the effective design of sales and delivery route systems. This understanding will lead to the proper application of tactical tools – tel-sell, driver-sell, bulk delivery, merchandiser/order-taker positions, etc. – that represent a re-allocation of resources within the firm. Often, an effective reallocation leads to the achievement of seemingly contradictory objectives – a better sales system, at a better cost.

Summary

For a distribution company, a total re-route of sales and delivery systems is an excellent opportunity to better align company logistics with ownership objectives. Unfortunately, this opportunity is missed by many companies. Missed opportunities usually result from a lack of design and mismanagement of the routing process.

The re-routing process is often influenced by politics. Whether consciously or not, managers involved in the process are impacted by certain biases. Managers in the sales department tend to focus on customer service. Operations managers tend to focus on minimizing the impact on the status quo, rather than on developing creative new solutions to old problems. Most companies do not allow managers in the financial area – or others whose primary concern is profitability - to have useful input into the routing process. This is a mistake and usually results in route designs being developed without consideration of overall ownership returns.

Make no mistake, an effective re-route is a long and arduous process requiring numerous design iterations before optimization is approached. In many unsuccessful projects, company ownership gets to the end of the process and either resolves to implement poor designs – or makes hasty, last-minute changes that compromise the entire process.

A successful re-route begins with the development of a sound strategy.
A sound strategy properly balances sales and market share goals with ownership return-on-investment objectives. A well-developed strategy that is properly executed can produce sales and delivery systems that are more efficient and effective.

Lamont Seckman is a nationally-recognized consultant to the beverage distribution industry. Since 1991, he has worked with hundreds of distributors all over the country on a variety of issues including: sales planning and market development, compensation planning, route logistics, warehouse layout and manpower planning, and business valuations, mergers, and acquisitions. As a noted public speaker, author, and principal in recognized consulting firms, Seckman has been a key contributor to the beverage and food distribution industries over the last decade.

More information on business valuation and profit-enhancement strategies can be found at: www.distributing-company.com