



SupplyVelocity®

The Secret to Distributor–Delivery Profitability

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October 2011



Abstract

Distributors who deliver with company-owned trucks incur significant overhead costs associated with their delivery operations. Typically, a small delivery fee is added to each order. In reality this fee almost never covers even 50% of the actual cost of the delivery. In this paper we will show how a simple measure can create huge visibility of customers that are causing you losses vis-à-vis delivery. Simply put, they are the low sales / high cost customers. We will show a formula for easily determining who they are and then discuss remedies that can make these customers profitable.

Background

This project was carried out for a regional distributor who delivered most of the products they sold via company trucks. We used the formula described in this white paper to target low sales / high cost customers and transform them into lower cost customers. This resulted in small increases in sales, but more importantly reduced delivery costs and improved profitability.

The Delivery-Profitability Formula

One of the great management tools is the Pareto (80/20) chart. It is perhaps the most powerful analytical tool available to managers. In most companies there are a vital few customers who deliver the majority of sales and profit. However, for this project, it wasn't the vital great customers that interested us, it was the vital worst. However, sales and even cost wasn't our focus, the secret was the number of deliveries made for a customer.

To determine true "delivery" profitability you have to adjust gross profit dollars earned from a customer for the total delivery cost.

Gross Profit \$ = Sales – Product Cost

Delivery Profit \$ = GP\$ – (Delivery Cost per delivery * # of deliveries)

Delivery cost per delivery = Total annual delivery expenses / # of deliveries per year

Our goal was to look for low sales customers that were high cost to service (deliver).

Project Results

Below we present the top 20 and bottom 20 customers from a delivery profitability perspective. The top 20 customers are no surprise. We have some great customers. Note how customer #2 took only 27 deliveries this year. That was a customer that ordered smart and did not cause us excessive deliveries... a high sales and high profit customer.



The bottom customers are a different story. Note that we were not concerned with the small customer who ordered just once from us in the last year. That is always going to happen. These are low sales and low cost customers. We were looking for the low sales and high cost customers.

The table below shows customers with less than \$200 adjusted (for delivery expense) gross profit. Notice the customers at the top with 9 deliveries. This customer had 1/3rd the deliveries of our #2 customer! Yet they had less than \$700 in sales. \$700 in sales is not a terribly low figure, but the deliveries made this a negative profit customer.

This chart demonstrates clearly what you have to do to increase delivery profitability... either increase the delivery fee for very small customers to recover more of the delivery cost or reduce the number of deliveries. Of these, reducing the number of deliveries is the easiest. More deliveries not only increase our costs, it costs these customers in time to receive and process our invoice.

The simple action item that resulted from this analysis was to work with the low sales – high cost customers to increase how much they purchased per order. This reduced the number of times a year they ordered. In addition, we instituted a small increase in delivery fee for smaller customers. Some of the sales team was worried that we would lose small customers, but the \$10 - \$15 increase was not noticed. This was such a small expenditure for these small customers they gladly paid to have the product delivered to their business.

Summary

Using the right metric can lead to visibility of true profit per customer. If customers are unprofitable, often simple remedies that are win-win or neutral can make every customer profitable. For distributors who deliver product with their own trucks, this metric is profit adjusted for delivery expense.



Delivery Profitability Data

Below are the top 20 customers by this measure.

Customer #	YTD Sales	YTD GP\$	# Deliveries	Deliver Expense (\$70/delivery)	Adj. GP\$	Customer Rank (Adj. GP\$)
60225000	334,486	157,968	167	-11,690	\$146,278	1
40222000	236,189	103,122	27	-1,890	\$101,232	2
46892	295,112	72,820	23	-1,610	\$71,210	3
15175000	126,430	66,905	39	-2,730	\$64,175	4
62115	91,822	48,460	18	-1,260	\$47,200	5
6200000	121,522	44,832	33	-2,310	\$42,522	6
1285	134,390	43,069	23	-1,610	\$41,459	7
47925000	97,489	42,897	26	-1,820	\$41,077	8
46250000	99,284	49,454	146	-10,220	\$39,234	9
42723200	71,033	40,449	19	-1,330	\$39,119	10
54500	55,379	41,281	35	-2,450	\$38,831	11
52001000	48,559	38,402	27	-1,890	\$36,512	12
63275	86,538	35,660	34	-2,380	\$33,280	13
23680	48,296	34,138	15	-1,050	\$33,088	14
46923000	96,177	35,934	49	-3,430	\$32,504	15
6007000	91,681	31,937	26	-1,820	\$30,117	16
61845	144,262	31,119	15	-1,050	\$30,069	17
60278	60,742	32,954	42	-2,940	\$30,014	18
62026000	101,666	57,538	398	-27,860	\$29,678	19
4100000	106,731	29,922	6	-420	\$29,502	20

Below are the bottom 20 customers sorted by the number of deliveries and gross profit \$.



Customer #	YTD Sales	YTD GP\$	# Deliveries	Deliver Expense (\$70/delivery)	Adj. GP\$	Adj. GP%	Customer Rank (Adj. GP\$)
21936000	\$682	\$503	9	-\$630	-\$127	2.60%	888
47418000	\$611	\$447	6	-\$420	\$27	32.12%	759
49896000	\$995	\$268	4	-\$280	-\$12	10.42%	825
20383000	\$372	\$273	4	-\$280	-\$7	28.40%	824
52331000	\$369	\$281	4	-\$280	\$1	30.65%	816
39419	\$478	\$316	4	-\$280	\$36	36.38%	778
19947000	\$247	\$186	3	-\$210	-\$24	9.81%	884
6575000	\$279	\$161	3	-\$210	-\$49	9.13%	878
19708000	\$220	\$154	3	-\$210	-\$56	12.76%	875
11973000	\$271	\$199	3	-\$210	-\$11	27.39%	847
53325	\$367	\$246	3	-\$210	\$36	32.65%	809
99877000	\$366	\$277	3	-\$210	\$67	41.80%	792
25001000	\$408	\$315	3	-\$210	\$105	46.43%	770
52137000	\$467	\$320	3	-\$210	\$110	41.85%	761
6207000	\$123	\$72	2	-\$140	-\$68	-11.09%	908
41716000	\$144	\$100	2	-\$140	-\$40	10.73%	889
62353000	\$150	\$105	2	-\$140	-\$35	13.70%	886
38700	\$162	\$120	2	-\$140	-\$20	22.15%	873
50058000	\$184	\$121	2	-\$140	-\$19	20.99%	869
49475	\$202	\$137	2	-\$140	-\$3	25.81%	862