

Optimizing Distributor Profitability Consortium



Supply Chain Systems Laboratory
Industrial Distribution Program, Texas A&M University

Distribution Research Consortia

The Supply Chain Systems Laboratory (SCSL) will establish a Research Consortium to conduct research and develop research driven educational programs in **Optimizing Distributor Profitability (ODP)**. The consortium will use Best Practices accumulated for many years in industry and academia to simulate how to create the highest profitability possible. A 2-day educational session will be developed based on the resulting knowledge, methodology and tools.

What is a Research Consortium?

A Research Consortium is a collaboration of two or more companies, associations, universities or government agencies to conduct research with the objective of developing solutions to a problem or a challenge common to everyone by pooling their resources for achieving a common goal.

Why join a Research Consortium?

Many times companies cannot afford to invest in some research and development due to high cost and/or lack of knowledge resources required to conduct the research. Research Consortia are an economical path to low cost, high quality research and development that is essential to the growth of the company. Consortium members are also able to share experiences and best practices developed in their channels (verticals) to further enrich the research findings and consortium meetings.

Who should join this Research Consortium?

This Research Consortium will be beneficial to:

- Distributors and Manufacturers who manage Distribution operations.
- Technology Providers who serve Wholesale Distributors and Manufacturers.
- Financial firms involved in acquisitions.
- Distribution Associations interested in advancing knowledge for their vertical channels.

What are the Benefits?

The benefit to the consortium member includes the opportunity to actively participate in this ground-breaking research to optimize their profitability. Members of the consortium will also be able to voluntarily be test cases (confidentiality protected) to determine what is optimal profitability for their firm and how to implement that optimal profitability. Additionally, **members of the consortium will have the opportunity to send up to 5 people from their organization to the educational programs at no cost** other than the travel expenses during the 2008 sessions. The educational programs will be scheduled two times every year following the conclusion of the research.

Deliverables

In addition to the body of knowledge resulting from this research, the tangible outcomes will include:

- Tools and methodology developed from the research and a book written by the research team.
- A 2-day educational seminar aimed at providing firms with knowledge into how they can apply the concepts, tools and techniques identified in the research.

Consortium Structure and Fees

Membership is limited to a **group of 25** companies to be an effective research group. The consortium fee is lower than previous consortia to encourage participation of small and mid-sized firms. Membership will be on a first come first serve basis. The membership fee is **\$10,000** per company per consortium.

Schedule

The Research programs will begin **September 2007** and conclude **March 2008**. The first two educational sessions will be scheduled starting **May 2008**.

Why Texas A&M?

Texas A&M Supply Chain Systems Laboratory is the premier Distribution research, education and solutions laboratory. Advancing the science of Distribution is our mission.

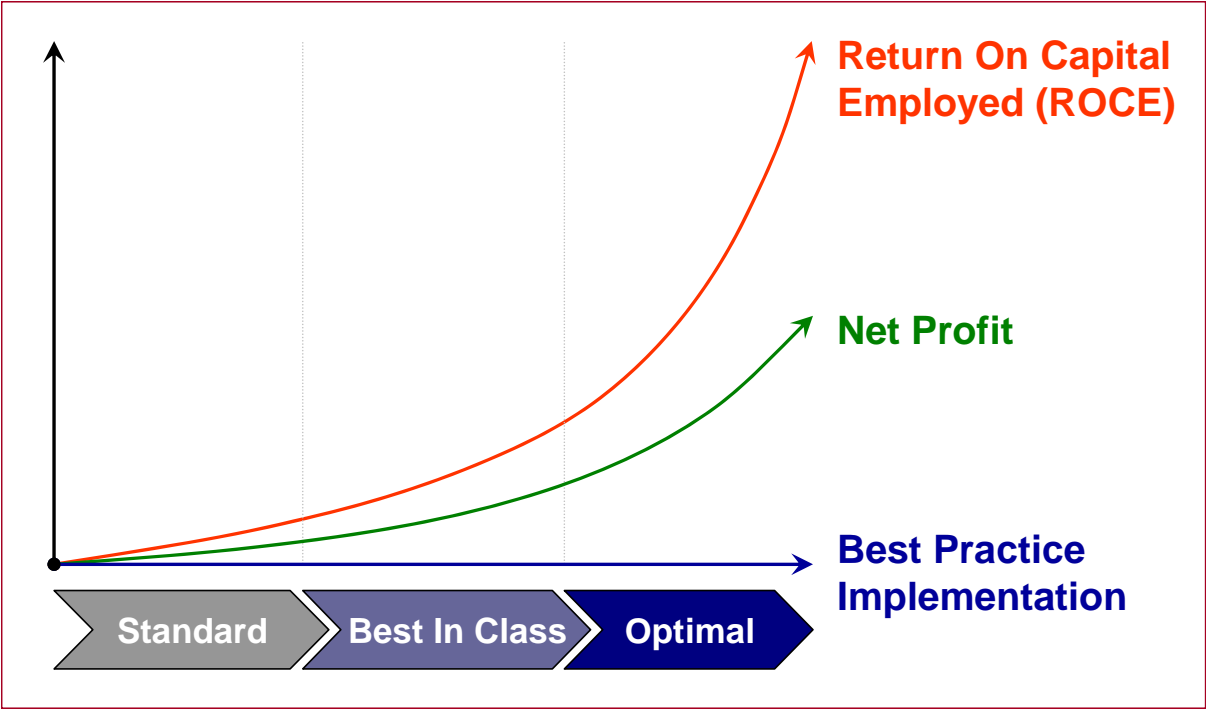
Optimizing Distributor Profitability

Optimizing the P&L and Balance Sheet

Overview & Need Over many years individual firms and professional researchers have compiled many “Best Practices” for distributors. These practices have been time tested and the best approach is now known for almost every imaginable distributor activity. Meanwhile, the pressure to perfect distribution operations has never been higher with customers continually demanding higher performance at lower cost. While each Best Practice has been analyzed in isolation and projections as to their impact on the Profit & Loss statement or Balance sheet have been made, no one has ever attempted to take all relevant practices and determine what the effect of implementing all would have on the firm’s Return on Investment (ROI) and Net Profit.

The objective will be to determine exactly how profitable a distributor could be. The analysis will facilitate distributors and manufacturers in optimizing their operations potential and financial firms seeking to understand the value of their acquisitions.

Solution Approach This study will work with distribution operations on a branch basis and determine how total best practice operations would affect the Profit & Loss statement (Net and Operating Profit) and the Balance Sheet (ROI and Return on Capital Employed). Data will be collected from volunteer firms working with the research team through workshops to simulate the effect of best practice on the firm’s profitability. The total impact will be collected eliminating overlapping savings and profitability gains from complementary processes.



Methodology

Even though many distributors may be somewhat familiar with “Best Practices” and may utilize them to some extent, understanding and implementing a holistic approach to optimize distribution has not been achieved by anyone. The documentation of a set of best practices and implementation roadmap to reach optimal profitability along with the steps and milestones for profitability goals will be the consortium’s objective.

The key project steps are:

- Texas A&M research team will conduct a series of workshops with distributors across several vertical marketing channels.
- Conduct quantitative research to identify the potential profitability and ROCE improvement possible in distribution operations.
- Conduct quantitative research to identify the top “high value” best practice opportunities.
- Simulate the impact of best practice implementation across all distributor functional areas on profitability to validate and establish processes for capturing the value.
- Develop a scientific model to determine the optimum combination of best practices.
- Develop an implementation roadmap with detailed milestones and expectations for monitoring and correcting progress.
- Develop an analysis methodology to determine the return on time and dollars invested in best practices.
- Develop an analysis methodology to determine the value to customers of best practices to determine the effect on sales and the subsequent effect on distributor profitability.

Goals	Current Issues	Solution	Benefits
Identify best practices that produce the greatest return on time and dollars invested	Best practices are difficult to implement and the impact on profitability has not been studied in totality.	Data from distributor operations will be used to simulate and validate how best practices impact profitability.	Understanding which best practices to implement to what effect.
Identify best practices that are of the greatest value to customers	The connection between best practices, customer reactions, and the impact on profitability has not been tested.	The customer response to distributor best practices will also be simulated and validated.	Understanding the impact of best practices on customers and how they will respond.
Develop a scientific model that will identify profitability and ROCE.	No roadmap for how to achieve optimal profitability and Return on Capital Employed (ROCE) has been developed.	A mathematical model between best practice implementation and profitability will be built and validated for use by consortium members.	Consortium members will be able to implement best practice, monitor progress, and drive success.

Value to Members

The consortium members will receive results, methodology and tools developed during this pioneering research into Optimizing Distributor Profitability. The key advantage for Distributors and Manufacturers will be to gain competitive advantage by implementing the scientific Optimization methods or using the tools developed to maximize the results. The key advantage to Technology companies will be interaction with customers in growing the knowledge base, methods and tools that can be implemented in their systems. The key advantage to financial firms will be the ability to assess what Earnings Before Interest and Taxes (EBIT) potential acquisitions have and what processes need to be pursued to meet that objective. The key advantage to Distribution Associations will be to extend the body of knowledge to their channel and create educational sessions for their members to access. Apart from shaping the research focus and gaining a valuable knowledge base, methodology and tools, each consortium member will be able to send up to a total of 5 people to two educational sessions that will be developed from this research. The educational sessions alone represent a \$10,000 value.

Schedule

Mar, 2007 – Sep, 2007	: Membership Enrollment & Consortium Formation
Sep, 2007 – Mar, 2008	: Conduct Research and Develop Tools
Sep, 2007 & Mar, 2008	: Consortium Meetings
Mar, 2008 – Apr, 2008	: Develop Educational Program
May, 2008 – Dec, 2008	: Deliver Two Educational Programs

About the Supply Chain Systems Laboratory

The Supply Chain Systems Laboratory (SCSL) is a Texas A&M Industrial Distribution Program laboratory with a mission to educate our students, create cutting edge solutions for wholesale and industrial distribution channels, and provide answers to Distribution and Supply Chain Management (SCM) challenges.

Leaders in Distribution Research: Texas A&M Supply Chain Systems Laboratory is the nation's premier distribution research lab. We bring cutting edge distribution and supply chain research solutions to the industry. The Lab provides total solutions for companies by providing research expertise, project execution support, IT implementation assistance, education and training for end users.

Research Solutions

The lab conducts applied research to solve distribution industry problems by developing processes, technology and connectivity to define, build, analyze, measure, improve and control the supply chain and its performance. Research topics include inventory management, distribution network optimization (asset management), logistics planning, distribution channel analysis, etc. The lab performs strategy development, process improvement and technology implementation projects for industrial wholesalers, distributors and manufacturers. Project areas include Inventory Stratification (ABC classification), Forecasting, Purchasing Planning, Network Optimization, Applications of Performance Metrics, Enterprise Resource Management (ERP) process and functionality improvements, etc. The lab also assists distributors and manufacturers with technology implementation, process automation and training to better manage their assets and increase profitability. The lab acts as a technology test bed for simulating and solving complex supply chain problems.

Educational Programs

The Supply Chain Systems Laboratory offers education and training to industrial distributors and manufacturers. The lab provides:

- Custom on-site training programs for executives and managers
- Online self paced learning courses for non-managerial employees
- Workshops - Interactive discussion sessions on challenges and opportunities
- Presentations & webinars on emerging topics at trade association events, distributors and manufacturer conferences.

The educational programs are research based, innovative, proven and cutting edge methods developed at Texas A&M Industrial Distribution Program.

For more information or to Join the Research Consortium please contact:

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