



What Every Business Owner or General Manager should Know



Background



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- Many STEP1 Owners and GM's do not have an accounting background



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- Many STEP1 Owners and GM's do not have an accounting background
- Years of surprising owners with this information led me to decide to offer a class



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- Two major topics will be addressed:



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 - Your REAL gross profit



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 - Inventory



Typical Jan/San Income Statement



Typical Jan/San Income Statement

• Sales	\$4,000,000	
• CGS	(\$2,750,000)	
• Gross Profit	\$1,250,000	31%
• Expenses	(\$1,130,000)	
• Bottom Line	\$80,000	2%



Typical Jan/San Income Statement

- Notice the (typical) 31 point margin. Is that really your margin??



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- There's two major costs that the standard Income Statement ignores...
 - Commission
 - Delivery (and other associated activity costs)
- I'd like you to start thinking along the lines of REAL gross profit after these direct order costs



REAL Gross Profit

- Most of you pay approx 30% of Gross Profit as the commission



REAL Gross Profit

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- Most of you pay approx 30% of Gross Profit as the commission... so there goes nearly 1/3 of it
- And then there are those pesky activity costs...
 - Cost of Customer Service time to enter an order
 - Cost of Warehouse time to pick the order
 - Cost of Delivering the order
 - Ancillary costs of sales dept. per order
- (handout gives advice on how to calculate)



REAL Gross Profit

- Of these, the two I'm most concerned with are **Commission** and **Delivery** cost



Let's take a straw poll:



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- How much do you think your 'Delivery' cost is?
- (let them speculate then give them this hint:)



Let's take a straw poll:

- How much do you think your 'Delivery' cost is?
- There's two 'right' answers:



Let's take a straw poll:

- How much do you think your 'Delivery' cost is?
- There's two 'right' answers:
 - One is for those of you operating 24ft trucks
 - The other is for the shorter 'cube' trucks that are not subject to the DOT rules



Numbers that Hal & Bob are OK with:



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- \$50 for the 'all 24 foot truck' fleet
- \$40 for mixed sizes
- \$25 for the 'all cube truck' fleet.



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- Our sample company today uses \$40/order



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- However, it would be healthy for you to go thru this exercise so you know what your number is.



REAL Gross Profit:



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- In our example, we paid 30% commission on \$1,250,000 in sales = \$375,000 comm. Cost
- And we delivered 9000 orders @ \$40/order = \$360,000 in 'Delivery' (Activity) cost.



REAL Jan/San Income Statement

• Sales	\$4,000,000	
• CGS	(\$2,750,000)	
• Commission cost	(375,000)	
• 'Delivery' cost	(360,000)	
• REAL Gross Profit	515,000	13% !!!
• Expenses	(435,000)	
• Bottom Line	\$80,000	



What's your 'Break Even' order?



What's your 'Break Even' order?

- How many have a 'minimum order'?
 - If so what is it?
 - How did you come up with this?



What's your 'Break Even' order?

- How many have a 'minimum order'?
 - If so what is it?
- Let's look at some examples...
- (spreadsheet)



Knowing Break Even, what target?



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- ...and we know that \$57 is break even (meaning NO profit for the company)



Knowing Break Even, what target?

- What should you set as a target GP on problem accounts?
- So far we know company wide ave GP/order (\$114 in the case of our test subject)...
- ...and we know that \$57 is break even (meaning NO profit for the company)
- Let's get some opinions on what the minimum GP should be *for the company*...(spreadsheet)



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- So now we have a target.



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- Guess how many of your customer's ave GP/O is *less than* your target? (Looking for a % of your total customers that are less than target)
- HINT:



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- HINT: \$114 is our *average*, not our *median*!
Remember the 80-20 rule!!!



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- So now we have a target.
- Guess how many of your customer's ave GP/O is *less than* your target? (Looking for a % of your total customers that are less than target)
- HINT: \$114 is our *average*, not our *median*! Remember the 80-20 rule!!!
- Answer... easily 50% of your customers



REAL Gross Profit

- Hope this was helpful, good luck with your numbers.



Inventory



Inventory

- Anybody got any inventory?



Inventory

- There are 2 Inventory numbers in STEP1:



Inventory

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 - G/L Balance Sheet (your 1200 account)



Inventory

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 - Inventory Valuation Report



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Inventory

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 - G/L Balance Sheet (your 1200 account)
 - Inventory Valuation Report
- Question for you:
 - Should these two numbers be equal?



Inventory

- Just to help define it:



Inventory

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 - G/L 1200 goes by GAAP rules



Inventory

- Just to help define it:
 - G/L 1200 goes by GAAP rules
 - Inv Valuation is the value of what's in the warehouse



G/L 1200



G/L 1200

- GAAP – Generally Accepted Accounting Practices



G/L 1200

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- Received inventory is not *recognized* until you receive the bill from the vendor for the inventory (even though you already have it)



G/L 1200

- GAAP – Generally Accepted Accounting Practices
- *Recognition* is everything with GAAP
- Received inventory is not *recognized* until you receive the bill from the vendor for the inventory (even though you already have it)
- Sold inventory is not recognized until you bill the customer (even though they already have it)



WH Inventory Valuation:

- Very simple calculation. Each item with positive stock level, gets calc'd as stock level x ave cost.



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- This tells you what you have in stock, but that can differ from what GL 1200 says because of GAAP recognition rules.
- NOTE: Inventory Valuation ignores items with negative stock levels.



WH Inventory Valuation:

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WH Inventory Valuation:

- In order for WH Inv Valuation report to be accurate, two things have to be right:
 - Stock Level has to be correct
 - Average cost has to be correct
- Both can easily be wrong if you are not mindful of inventory dynamics



Should GL 1200 & WH Val be equal?



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- In a thriving viable distributorship they are NEVER equal.
- Every day inventory is arriving which we are waiting on the vendor's invoice.
- NOTE: With vendors emailing invoice the time is a lot less than it was... but email is not bullet proof – and can cause an additional problem.



Which way should they be off?



Which way should they be off?

- If everything is correct, then
[WH Valuation + Specials in house]
is typically HIGHER than GL 1200



What if Something is Wrong?

- (Tim's Inventory Strategy class goes through MANY of the ways things get wrong.. And how to fix them!) – Go to his class if you can, otherwise you can arrange a private class
- Tim can also show you how to reconcile the numbers.



Some of the ways things get wrong



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- Stock levels are wrong.



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- Average cost is wrong.



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- Emailed vendor invoice entered BEFORE stock received!!!



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- Stock levels are wrong.
- Average cost is wrong.
- Emailed vendor invoice entered BEFORE stock received!!!
- Receiving errors, including wrong cost on PO
- Buying specials on CC, not costing it on invoice
- Unreported Substitutions
- Theft & Shrinkage



How good are your procedures?



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- How many of you mark orders as shipped once they leave the warehouse?



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- How many of you mark orders as shipped once they leave the warehouse?
- STOCK LEVEL is the GAAP number, which does not change until the item is billed AND POSTED (see next slide for example)



How good are your procedures?

Item Status Check * 1 Ply Jumbo Tissue

File Search

Main WebDocs WH Info Pending Orders Stock History Purchasing Purch Notes Item Notes Price List Notes Qty History Sales His

Description: **1 Ply Jumbo Tissue** **Chicago-DNet** **Stock Level: 57**
 + **12/Case** **Shipped: 3**
 Item Code: **RESP-12620** **Received: 0**
 Item Type: **I** **Stock On-Hand: 54**
 Sales Class: **Reserved: 136**
 Stock Class: **-** **Available: -82**
 Sub-Cat: **20-AUNTI** **Reorder Point: 0**
 Stock Unit: **Case** **On Order? Y** [View Pending POs](#)
 Price Unit: **Case** **Date: 11-Jan-2013**
 Price Mult: **1** **Expected:**
 Ship Weight: **26.7** **Qty: 81**
 Ship Cubes: **0** [View Online Catalog Page](#)

	Price	Quantity
List:	60.12	
Brkt 2:	51.50	0
Brkt 3:	45.04	0
Brkt 4:	44.14	0
Brkt 5:	42.39	0
Brkt 6:	40.03	0
Brkt 7:	38.63	0
Brkt 8:	36.35	0

Item Cost: 30.90	MSDS Reqd? N
Last Cost Chg: 13-Mar-2015	MSDS Code:
Supplier: AWMEN100	HazMat? N
Supplier Part #: PT20112	Service Item? N
Alt Supplier: 0	Warranty: 0
Alt Supp Part #:	
BreakCase? N 1 From:	Taxable? Y S/N? N

Comments: **2000'**

Sale? **N**
To



How good are your procedures?

- If you get in the habit of marking orders shipped, then STOCK ON HAND should be right all the time! (think of it as FLOOR STOCK)



How good are your procedures?

- If you get in the habit of marking orders shipped, then STOCK ON HAND should be right all the time! (think of it as FLOOR STOCK)
- Now your Norwegian Cycle Counting will work (Stock on Hand shows on receiver)



How good are your procedures?

- Always insist on confirming PO's from your vendors. Make sure to change costs BEFORE you receive the shipment.



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- Always insist on confirming PO's from your vendors. Make sure to change costs **BEFORE** you receive the shipment.
- If an invoice does come in with different costs, write the difference off to CGS, don't try to fix!



How good are your procedures?

- Always insist on confirming PO's from your vendors. Make sure to change costs BEFORE you receive the shipment.
- If an invoice does come in with different costs, write the difference off to CGS, don't try to fix!
- Do not wait to receive shipments that have arrived on your dock until the invoice comes!



How good are your procedures?

- Have a 'Specials' rack to put all arriving special order items on, don't put up in regular space



How good are your procedures?

- Have a 'Specials' rack to put all arriving special order items on, don't put up in regular space
- Have a 'Returns' rack to quarantine returns, promptly check to see if it's sellable. If it's not then adjust out of inventory.



What needs to be right:



What needs to be right:

- Stock Levels and Average Cost. Mark orders as shipped so Stock On Hand is accurate!!!



What needs to be right:

- Stock Levels and Average Cost. Mark orders as shipped so Stock On Hand is accurate!!!
- G/L 1200. All of you should start working on your procedures to insure that this is accurate.



(future) Warehouse Automation:



(future) Warehouse Automation:

- WA will keep Stock Levels accurate, and will insure that the correct product is picked for orders.



(future) Warehouse Automation:

- WA will keep Stock Levels accurate, and will insure that the correct product is picked for orders.
- WA will *NOT* guarantee that your inventory valuation will reconcile with your G/L!!



(future) Warehouse Automation:

- WA is very procedural. Nothing moves without the gun



(future) Warehouse Automation:

- WA is very procedural. Nothing moves without the gun
- WA is typically very hard to implement



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- WA is typically very expensive



(future) Warehouse Automation:

- WA is very procedural. Nothing moves without the gun
- WA is typically very hard to implement
- WA is typically very expensive
- ...but, anyone successfully using it loves it.



(future) Warehouse Automation:

- I've been researching WA for quite a while, and have looked at several packages in detail.



(future) Warehouse Automation:

- I've been researching WA for quite a while, and have looked at several packages in detail.
- All of them had some great features, but none of the ones I looked at were a perfect fit for Jan/San and Packaging.



(future) Warehouse Automation:

- I've been researching WA for quite a while, and have looked at several packages in detail.
- All of them had some great features, but none of the ones I looked at were a perfect fit for Jan/San and Packaging.
- I was hoping to identify a company that we could partner up with, but did not find one.



(future) Warehouse Automation:

- I'm working on specs for what WA might look like from STEP1. I have a few ideas to share:



(future) Warehouse Automation:

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- Starting is the hardest part. All barcodes and shelf locations have to be in before use.



(future) Warehouse Automation:

- I'm working on specs for what WA might look like from STEP1. I have a few ideas to share:
- Starting is the hardest part. All barcodes and shelf locations have to be in before use.
- So instead, how about we start just by using the gun to pick orders. If the gun scans an item and the barcode is not on file, then it puts it on file.



(future) Warehouse Automation:

- Approach the problem in sections rather than the whole:



(future) Warehouse Automation:

- Approach the problem in sections rather than the whole:
 - Start just with Take Down (picking orders)



(future) Warehouse Automation:

- Approach the problem in sections rather than the whole:
 - Start just with Take Down (picking orders)
 - Then once all the barcodes on items are in, then start on Put Up (putting stock away). If no shelf label on file, then add it (same idea)



(future) Warehouse Automation:

- Approach the problem in sections rather than the whole:
 - Start just with Take Down (picking orders)
 - Then once all the barcodes on items are in, then start on Put Up (putting stock away). If no shelf label on file, then add it (same idea)
 - This allows useful results without all the up front work.



(future) Warehouse Automation:

- Some distributors might be content just to use WA to pick orders, and not worry about the rest



(future) Warehouse Automation:

- Some distributors might be content just to use WA to pick orders, and not worry about the rest
- I'm thinking of having the pieces available separately, to help lower (spread) the cost and make it easier to have quick success



(future) Warehouse Automation:

- Comments?
 - Who thinks WA would be a good idea for STEP1 to come out with?



(future) Warehouse Automation:

- Comments?
 - Who thinks WA would be a good idea for STEP1 to come out with?
 - Of those, what size company are you?



(future) Warehouse Automation:

- Comments?
 - Who thinks WA would be a good idea for STEP1 to come out with?
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 - Thanks for your thoughts!



Data Cleanup

- (if time permits)



Data Cleanup

- Doing data cleanup is a chore!



Data Cleanup

- Doing data cleanup is a chore!
- But cleaned up data pays big dividends!