

# ANALYZING YOUR BUSINESS

A fresh perspective can be helpful in times of trouble.

**M**any electrical distributors are starting to have concerns about similar business problems. They are losing sales (very often in the residential market), or hemorrhaging profit because of slow-paying customers or inverted inventories, when more inventory dollars are invested in slow-moving stock than in fast-moving items. These distributors feel they have lost control of their businesses but are not really sure why.

Good businesspeople can sense an impending problem, but they often don't know how to prevent or plan for it. Some of the comments that I have recently heard (and heard quite a bit during the last economic downturn) include:

"Cash flow is a problem."

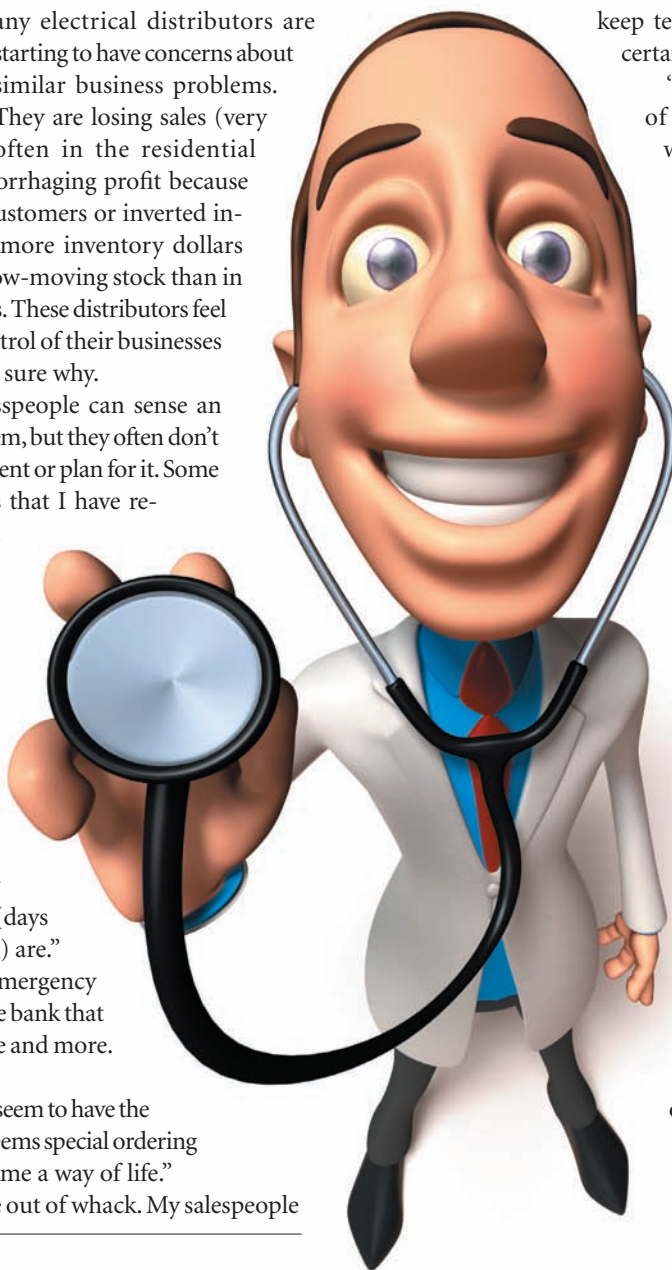
"My receivables are way beyond 120 days."

"I don't know what my DSOs (days sales outstanding) are."

"We have an emergency line of credit at the bank that we are using more and more. I am worried."

"We just don't seem to have the right product. It seems special ordering product has become a way of life."

"My prices are out of whack. My salespeople



keep telling me we are too expensive on certain products."

"I am reacting to the market instead of steering my business to where I want to be."

If you have some of the same thoughts and comments, you are not alone. Many independent distributors started their business with a dream, a business plan and some family and friends. Some companies went through early cash-flow problems meeting payrolls, financing inventory and paying the lease on a building. Some had investors or bankers that helped ease the pain. But through it all, their companies grew and survived. Many are now at a crossroads. They are having a very hard time keeping their arms wrapped around their business. They may have lost market share, or can't seem to get a fair price and profit. In general, they have lost control on portions of their business.

About 10 years ago, I began to track how distributors performed in different economic conditions. I analyzed the business results of 388 electrical distributors with annual sales of \$25 million or less over a 10-year period of time (1998 to present). Here is what I found:

- 88 percent or (341 distributors) wanted to try to ride out economic times.
- Of that group of 341 distribu-

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tors, approximately 48 companies would be sold or go out of business.

■ 47 percent of the 341 distributors would eventually encounter credit issues. Some would weather this challenge, others would not.

■ The remaining 12 percent (47 companies) would try and grow their businesses. Approximately half of this group would be successful in growing their businesses regardless of the economic times.

Most of the electrical distributors I studied were relatively small. In fact, getting to \$12 million in annual sales was a common goal. But follow-up interviews with these electrical distributors revealed that most had several things in common:

**A focus on inventory size and velocity.** These companies seemed to have an almost religious conviction about the dollar size of their inventory. Every one of them reported that they watched the velocity of their inventory on a monthly basis. For example, if a distributor has been a heavy player in the residential market and the speed at which an item is moving drops, they slow purchasing down or stop it altogether.

**Scrutinizing DSOs.** They work DSOs and accounts receivable weekly and actually shut down credit to people above the 45-day level. Those customers that seep through the 45-day window are put on a cash/credit card basis. Some respondents filed liens on these customers.

**Serious strategic planning.** These distributors said creating new three- to five-year strategic plans and one-year implementation (business) plans helped them focus on their market goals. For some it had been a while since they had grown through a strategic or business plan process. Refocusing after a prolonged period of a good market is difficult for many. While their old battle cry used to be, "Just get the order baby," their new battle cry is, "Get the order with this margin level, but make sure they have paid their earlier invoices." The common theme is that they try to refocus a portion of their business, not necessarily reinvent their entire business.

Over the years, many distributors have found value in having a seasoned professional take a snapshot or "in-time business assessment" of their operations. A knowledgeable third party can bring a different perspective on their company. They may be able to identify leadership problems, inventory size and inversion, collection problems, internal theft, inadequate use of an existing ERP software system, and the lack of CRM (customer relationship management) data about their remaining customers.

Many will seek the counsel of a financial advisor and let them crunch the numbers. But numbers don't always reflect everything going on in that particular marketplace. Others will seek professional help from outside consultants who have been in the distribution business and are active in the channel. Some will do absolutely nothing, just hoping

## 10 QUESTIONS TO ASK YOURSELF

The answers to these questions can reveal a lot about the health of your business. If you would like a preliminary analysis of your operations based on this assessment by a third-party distribution industry consultant with an expertise in profit management, please contact the author.

1. Do you have a current strategic and business plan? When was the last time it was reviewed and updated?
2. What are your annual sales (projected) versus last year's sales?
3. How is your cash flow?
4. Are you taking cash discounts?
5. How many employees do you have currently?
6. How many active customers do you have currently as compared to last year?
7. How often do you invoice?
8. What is your inventory mix by sales speed category? A, B, C, D, etc. and 1,2,3,4, etc.
9. When is the last time you performed a physical inventory?
10. Have you ever had an outside consultant look at your business operations? You may be leaking profit and not even recognize it.

to ride out the storm.

A fresh perspective on your business may be worth the money if it's done at the right time. You will probably learn some things about your business that you didn't know. For many, it's an eye-opening experience.

Whether your choice is a CPA, family advisor or an experienced industry consultant, in the end you need to end up with specific three- to five-year strategic plans, a one-year implementation plan, business processes, management systems (inventory management system) and infrastructure that can adjust to a changing market place and ensure that you can continue to grow your business, or at worst ride out an economic downturn and ensure no worse than flat or consistent performance from the previous year.

The business processes that it takes to run and grow a business are different from what it takes to maintain a business. A professional review of your operations can help you do that. ■

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