



Quantum Profit Gram #24

"The fastest way to improve profits is to transform losing customers into profitable ones." — John Watson, CEO of an MRO supply distributor

**QUANTUM
PROFIT™
MANAGEMENT**

Here's his story:

We installed Waypoint's service to measure our 800 active customers by net profit. We put them in three piles that made turnaround solutions clear.

- **Small Accounts** (<\$1000/year) They were: 50% of our accounts; averaging roughly 35% gross margin, but only \$50 in gross profit/order. 90% of them were chronically small with no growth potential. We can't process, pick and deliver an order for less than \$80-\$100. And our location isn't suited for cash-and-carry.
- **Big Losing Accounts** (>\$1000/year) 150 accounts averaging 21% margin and \$60 gross profit/order. (The ten biggest losers had cumulative losses of over \$100K.)
- **Profitable Accounts** (>\$1000/year) 250 accounts in total which: generated 80% of our sales; 150% of profits; had 25% average margin rate; and generated 5% net profit. The top 80 are our "vital core"; they generated 110% of the profits with a net profit rate of 7%.

What did we do? We sent the small accounts a letter announcing new minimum order sizes and freight charges for city delivery. About half left or seriously curtailed their purchases, the rest began to order within our new guidelines placing bigger orders and now more often paying delivery. Daily orders for this group dropped by 15%. With new operational slack, we laid off one person each from: inside sales, the warehouse and a drivers and truck. Operational cost cuts were nearly twice the lost margin dollar total. This program improved our profits by about \$12K per month which doubled our miniscule profits.

For the super-losers, we used sub-reports to look at each customer's annual profit rankings for both orders and items. Insights about these customers' dysfunctional buying patterns just popped out. We planned out an approach and tested it with the first five of the friendliest big losers. We transformed every one of the first (and easiest) group from high activity costs to better value for both sides and often gained more sales. As our skills and confidence increased, we approached more of the most aggressive losers. Twice we had to play hard ball; and we lost one, but the other came back with some ideas of his own, and is now turning the corner with us. In total, we turned (\$150K) in losses into \$120K in profits, for a total swing of \$270K: more than double our original profits.

For our core accounts, we are now beefing up core items and have launched a cross-selling program on best items to the core group. Early returns look promising for another nice profit gain. The success of the small account program gave us the energy for the more difficult plays, and the new cash flow financed inventory for more core products. WayPoint's service is the highest ROI move we've ever made.

**Stop
Losing
Profits**



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