

# You CAN Get There from Here

## 4 Steps to Margin-rich Wholesale



The wholesale distribution industry is a vital part of the American economy. More than 250,000 wholesale distributors employ one out of every 20 private sector workers, but margins have been getting thinner and thinner over the years. While wholesalers have squeezed out all the costs they could by leveraging inventory, transportation and warehousing systems, the recent recession exposed the limitations of these benefits for what they were—subcomponents optimized within the narrow confines of “siloed” thinking, where each department operates autonomously.

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Wholesale executives have come to realize that growing channel conflicts and challenging macroeconomic trends, along with demanding customer service levels, will continue to erode their margins. The only path to a margin-rich future requires a basic change in thinking and a cultural sea change, but at the moment the wholesale distribution industry “can’t get there from here.”

Executives who are willing to re-think their business model, challenge old assumptions, and ask the same from their employees CAN get to a margin-rich future, and here’s how:

*“Without Manhattan’s solutions, we couldn’t afford to be in business.”*

Wirtz Beverage Distributors



*“Manhattan is the only global vendor that can lay claim to have a suite of Supply Chain management applications on a common platform that covers supply chain execution and its supply chain planning solutions.”*

Gartner, Inc.

### Step 1. Changing Mindsets

The wholesale distribution industry has traditionally employed a departmentalized or “siloesd” business model, where each department manages its own area. While there is constant concern about how each department is impacted by its peers, there is little understanding about the impact they have on one another. Each is focused on their own goals, and all suffer from the “Law of Unintended Consequences.” For example, when procurement decides to make a forward buy to take advantage of a special vendor discount, they have little idea how much this purchase will cost to ship and warehouse. In other words, is it worth it? This is but one example of each area making decisions based on their own best interests, unaware of the unintended consequences.

In order to find the best solution for the entire business, it’s essential for management to step back and challenge the way things have always been done. What is required is a re-definition of success, not in terms of individual functional areas, but in terms of the entire business. The individual teams must become aware of the bigger picture and incentivized to act upon it; to take on an enterprise-wide view beyond any labor cost per unit calculation, to realize that all functions are striving for higher margins, both in profit and in operations. And the only way to get there is together.

### Step 2. One Version of the Truth

Currently each department is its own contained unit dealing with its own resources and challenges, holding fast to its link in the supply chain and feeding information up to management for decisions. Naturally each team sees the world from its own window which is often tinted by the systems that support their function. Traditionally, teams exchange information to support each other. Systemically this manifests itself as ‘integration’, with data passed back and forth, but the reality is that each department ends up with its own version of the information—its own version of the truth. Between data transmission times and errors, terminology differences and data formats, information quickly loses its timeliness and consistency.

But imagine what would happen if there was no such thing as integration because there was no need. No silos. Common business objects exist on a common business and technology platform—one PO, one item, one shipment, etc. For the first time information is actually shared. The data exists across the entire business as one object, not one department’s version of it. When a shipment is delayed, the warehouse, inventory and customer service teams immediately know about it because they’re looking at the same shipment. Each team can see the complete picture and respond accordingly. This eliminates latency and variability, which in turn allows companies to run on leaner margins for error and thus improve operating margins. For the first time all functions are working with the same information using common terms applicable to all functions.

In this world of seamless workflows orders generated by replenishment flow directly to the warehouse. Slotting can use those specific orders to create more efficient pick-line configurations. And because the DC knows what's coming, their labor plans are much more accurate; reducing overtime and overall costs. The platform synchronizes all functions in real time, eliminating waste and speeding up the entire operation. If there is a change or delay, all functions know it at the same time and can respond accordingly. Now all product moves faster through the warehouse and out to customers. Cross-docking becomes a real option. The faster the shipments, the faster the supply chain, and the faster the cash comes in. With vastly improved speed and efficiency, value-added services to customers can be offered, creating a new competitive advantage.

*“Manutan’s entire supply chain is now benefiting from Manhattan Associates’ Distribution Management solutions. The new platform provides us with visibility of supply chain data in real time, has accelerated our fulfillment operation, has improved inventory visibility and accuracy, and enabled us to raise the overall level of service we provide to customers.”*

Manutan,  
Europe’s largest industrial supplier

### Step 3. Shared Decision-making Engines

Once all functions are sharing the same data and speaking the same language, the third step to margin-rich wholesale is aligning on a transactional level to optimize across all functional areas. This transformational step moves beyond sharing data to sharing decision-making engines. Each decision-making engine interacts with the others, unleashing a powerful diagnostic and analytical tool that enables real margin improvement. For example, Replenishment might traditionally round up a large order to a full truckload quantity based on some simple carrying cost and transportation cost assumptions. But what if only half a truckload is needed? What would be the most efficient and profitable combination of route and ship dates? By combining the transportation engine view of the world (what possible routes could be created on specific dates?) with an inventory engine view of the world (what is the impact of changing the ship date?), the two engines act as one to provide the optimal solution, all in real time. For example, if shipping two days later can save \$375 in freight costs and has marginal impact on service levels, then go ahead and delay the order.



With a platform eliminating barriers and synchronizing business processes, the shared decision-making engines of inventory, transportation, labor and fulfillment can work smarter by easily consulting one another on plans and response, streamlining processes and removing costs on a real-time ongoing basis, continually seeking out the lowest inventory levels to retain customer service levels while increasing margins.



*“Manhattan really shines in the area of execution with tightly integrated inventory, warehouse and transportation management underpinned with supply chain intelligence, visibility and event management capabilities. Architecturally, SCOPE® is Manhattan’s supply chain process platform.”*

Gartner, Inc.

#### **Step 4. Supply Chain Finance**

This universal visibility of the entire supply chain provides not only clarity of functions but clarity of information as well. With all processes interacting in real time, wholesale distributors can take the next game changing step—managing via Total Cost to Serve. Rather than using top-down, P&L statement-based simulation tools, incorporating Total Cost to Serve into the supply chain execution system delivers bottom-up continuous updates on costs starting at the most granular level and compiling them up to levels appropriate for decision-making. This allows executives to sort through any number of variables and attributes, knowing the real cost of each. With the actual cost to serve in mind, executives have the information that allows them to move from a purely operational mindset to incorporating financial “what if” scenarios in their planning to fully understand the financial implications of decisions *before* they make them.

So, for example, determining optimal flow path can sort through all the variables and options and offer the best solution and the lowest cost. All before any decision is made. Saving a small amount on each unit may not seem like much, but multiplied by thousands of units small savings can result in large margin gains. The beauty of Total Cost of Serve is that it can help you reduce costs and increase revenue at the *same time*. Quite an advantage.

Wholesale distribution executives will have to change their traditional thinking of supply chain technology as an expense to be minimized and understand that the latest, scalable supply chain optimization technology is an asset that can substantially drive down costs while increasing efficiency across all operations. By investing in a supply chain platform infrastructure today, warehouse distributors can look forward to a margin-rich future.

## About Manhattan Associates, Inc.

Manhattan Associates continues to deliver on its 21-year heritage of providing global supply chain excellence to more than 1,200 customers worldwide that consider supply chain optimization core to their strategic market leadership. The company's supply chain innovations include: Manhattan SCOPE® a portfolio of software solutions and technology that leverages a Supply Chain Process Platform to help organizations optimize their supply chains from planning through execution; Manhattan SCALE™, a portfolio of distribution management and transportation management solutions built on Microsoft. NET technology; and Manhattan Carrier™, a suite of supply chain solutions specifically addressing the needs of the motor carrier industry. For more information, please visit [www.manh.com](http://www.manh.com).



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