

How to Improve Performance and Profitability through Training

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ASA Convention 2008

Atlanta, Georgia

What Distribution Industry Experts Say:

- *“It’s almost impossible to “make it up in volume.”*
- *“Half of individual sales in distribution are unprofitable.”*
- *“80% of your customers are probably unprofitable.”*
- *“95% accuracy in all fulfillment activities is terrible.”*
- *“Single most important factor in determining profitability of a sale is gross margin dollars.”*
- *“The average distributor makes 120% of its profits from 20% of its customers.”*
- *“Greatest predictor of profitability is line items per sale.”*

What Distribution Industry Experts Say

Technology is the enabler of effective pricing. It gives you the ability to manage an increasingly complex pricing structure while yielding insights into better business opportunities.

Profits are Driven by People

- Recruit the right people
- Orient them to strengthen purpose and build commitment
- Train them about the products, customers and business.
- Lead them to use the
 - right tools in
 - effective operating systems according to
 - plans and strategies to exceed
 - customer expectations

Profits are Driven by People (cont'd):

- **Evaluate performance**
- **Reward the team consistent with targets and outcomes**
- **Regularly evaluate, refresh and renew your systems**
- **Target areas for improvement according to established benchmarks.**

Two Critically Important Principles About Training

- **Training can only help with a training issue.**
- **Getting it right requires a significant investment in time, thought, effort and money.**

The 4 Steps That Connect Training to Profitability

- STEP 1** **Identify targeted performance measures.**
- STEP 2** **Decide which measures emphasize.**
- STEP 3** **Employ the right tools to address strategies and achieve your goals.**
- STEP 4** **Measure results and reward performance.**

A Closer Look: Step 1

- **Identify targeted performance measures**
 - Start with our industry's basic business model.
 - Choose financial targets from 15 critical distribution business ratios.
 - Select some critical, non-financial areas like safety and legal considerations.

A Closer Look: Step 2

- **Decide which measures to emphasize**
 - Identify a few areas of greatest opportunity and/or vulnerability.
 - Decide on a few strategies for improvement.
 - Define improvement with specific measurable targets.
 - Define the required behaviors.

A Closer Look: Step 3

- **Use tools readily from ASA and others**
 - Drill larger improvement targets down into target components.
 - Build target components into job descriptions*, recruitment, training, performance evaluation and compensation.

A Closer Look: Step 4

- **Ensure the continuity of the system**
 - **Measure the business results of training.**
 - **Reward the performers.**
 - **Look for solutions if it isn't working.**



Step 1: Identify Targeted Performance Measures

Start with our industry's basic business model

Operational Excellence Means:

- Get the customer what they need, when they need it, at a reasonable price.
- Execute all transactions with NO mistakes:
 - Order servicing
 - Inventory handling
 - Cost controls
- Ensure all the team members:
 - Use systems flawlessly
 - Use tools flawlessly
 - Know your products, customers, their business and your business
 - Follow company policy

This is the core contract with your customer!

Does 95% Accuracy = Operational Excellence ?

- Enter order correctly 95%
- Product is readily available 95%
- Order is picked correctly 95%
- Order is delivered on time 95%
- Invoice is error free 95%
- Payment is properly processed 95%

$$.95 \times .95 \times .95 \times .95 \times .95 \times .95 = 73\%$$

Remember: The customer experiences the entire transaction!

Going to the hospital for heart surgery?

- Referring physician is 95% successful
- Initial Prep team is 95% successful
- Anesthesiologist is 95% successful
- Surgical team is 95% successful
- Recovery monitoring is 95% successful
- Post-surgical treatment is 95% successful

$$.95 \times .95 \times .95 \times .95 \times .95 \times .95 = 73\%$$

Chances are 73% you'll live!

Step 1: Identify Targeted Performance Measures

Choose some financial ratios related to profitability

- **Choose from 15 Critical Financial Ratios* from six categories:**
 - **Profitability: NP/TA, NP/NW NP/NS**
 - **Asset and Financial Management**
 - **Personnel Productivity**
 - **Inventory Management**
 - **Accounts Receivable**
 - **Expense Management**

**From ASA Operating Performance Report –*

See Tom Noon's presentation on "The 15 Critical Ratios" Thursday at 1:30pm

Step 1: Identify Targeted Performance Measures

Add some critical non-financial performance indicators

- **Customer satisfaction**
- **Employee satisfaction**
- **Critical operations**
(safety and some HR issues)
- **Regulatory compliance**

Step 1: Identify Targeted Performance Measures

Bring the critical measures closer to home

- **Look in your income statement, balance sheet and cash flow statement**
- **Get your CFO recommendations**
- **Use customer satisfaction surveys**
- **Measure employee satisfaction**
- **Include safety records, etc.**

Step 1: Identify Targeted Performance Measures

A few measures you're likely to select

- **Strong sales growth**
- **Improvements in GM%**
- **Reduction in operating expense %**
- **Better inventory utilization**
- **Faster collection of accounts receivable**

Step 2: Decide Which Measures to Emphasize

Areas of Greatest Opportunity or Vulnerability

<u>Improve Performance 1%</u>	<u>Profit Improvement</u>
Pricing	47.5%
Sales	10.0%
Cost of Goods Sold	37.5%
Operating expense	11.5%

Step 2: Decide Which Measures to Emphasize

Areas where the higher profit firms excel

- **Personnel productivity**
 - **Higher net sales per employee**
 - **Similar gross margin per employee**
 - **Higher sales growth from previous year**
- **Operations/inventory management**
 - **Lower selling expenses**
 - **Lower operating expenses**
- **Receivables management**
 - **Shorter collection days**

Step 2: Decide Which Measures to Emphasize

Establish strategies, targets and behaviors

- **Decide on a few strategies to improve the selected areas**
- **Establish specific measurable targets for these selected areas**
- **Define the behaviors required to execute the strategies and hit the targets**

Step 3: Use Tools from ASA and Others

Drill big picture financial goals into individual employee performance goals*

- **Big Picture Goal**

Increase Net Profit

- **Employee performance goals***

Customer P&L

Transaction P&L

Profitable customers

Line items per order

Median order size

GM \$ per order

Number/amount of price concessions

**Stuff you can measure, track, explain, train to and hold accountable for, etc.*

Step 3: Use Tools from ASA and Others

Drill big picture non- financial goals into individual employee performance goals*

- **Big Picture Goals:**
 - **Reduce workman's comp expense**
 - **Regulatory and liability issues**
 - **Increase employee satisfaction and reduce turnover**
 - **Increase customer satisfaction**
- **Employee performance goals:***
 - **Follow safety practices/reduce accidents**
 - **Increase regulatory compliance**
 - **Increase employee satisfaction scores**
 - **Increase customer survey scores**

**Stuff you can measure, track, explain, train to and hold accountable for, etc.*

Step 3: Use Tools from ASA and Others

The job description is the key

- **What the job will accomplish**
- **Basis for effective recruitment**
- **Communicates expectations to employees**
- **Provides a basis for evaluating performance**
- **Helps supervisor target areas for improvement**
- **Identifies where training is needed**

Step 3: Use Tools from ASA and Others

Job Description Components*

- **Summary statement identifying the scope and outcomes of the job**
- **Function statements define specific duties and responsibilities**
- **Requirements needed to perform the job**
- **Closing statement for flexibility, i.e., “other duties as assigned”**

The *Inside Sales* Job Description as an Example

Step 3: Use Tools from ASA and Others

Develop a recruitment program*

Guidelines, strategies, forms and sample documents to help you

- Become an employer of choice
- Develop a talent pool
- Recruit, select and hire
- Retain top performers

Step 3 Use Tools from ASA and Others



Other ASA resources to help you recruit a winning team

- **Customize *Hot Careers - Hidden in Plain Sight* brochure for your company**
- **Use ASA website link to *Senior and Community Colleges* with Industrial Distribution Programs**
- **Establish competitive compensation with ASA or *NAW Employee Compensation Report***

Step 3: Use Tools from ASA and Others

Use ASA's New Employee Orientation Program*

Position new employees for success

- Build enthusiasm
- Alleviate uneasiness
- Instill confidence
- Stimulate interest

Step 3: Use Tools from ASA and Others



Training is driven by...

- **All employees need a basic knowledge**
 - Company
 - Products
 - Customers
 - Business
 - Critical areas like safety
- **The requirements of the job**
 - Job and training resource matrix
 - “Train for Success” handout
- **ASA members have access to a few special resources**

Step 3: Use Tools from ASA and Others

ASA members have access to a several unique resources

- *ASA's Ultimate Training Resource*
- *The online Essentials Sampler*
- **Overview of PHCP and Industrial PVF Industries**

Step 3: Use Tools from ASA and Others

Performance Evaluations are critical to your success

- **Clarify work expectations**
- **Important feedback to employees**
- **Goals and plans for growth**
- **Uniform, fair and objective**
- **Integrate with company objectives, goals, job descriptions, etc.**

Step 3: Use Tools from ASA and Others

Using *Inside Sales* as an example

- **Go to template from Tool Kit**

Step 4: Measure Results and Reward Performers



Impact on the Learner

- **Survey employee and supervisor satisfaction with the training**
- **Test for skills and knowledge acquired**
- **Observe trainee's performance by supervisor, co-workers, customers**

Step 4: Measure Results and Reward Performers

Is your business improving?

- **Overall profitability increasing?**
- **Critical financial performance indicators you have targeted improving?**
- **Critical non-financial performance indicators improving?**
 - Quality of service rising?
 - Customer satisfaction rising?
 - Employee satisfaction going up?

Step 4: Measure Results and Reward Performers

When even the best training efforts fail, look for...

- **Top management not fully committed**
- **Training responsibility not properly delegated**
- **Issue or behavior is not a training issue**
- **Desired behavior is not supported by operations system**

Step 4: Measure Results and Reward Performers

When even the best training efforts fail, look for...

- **Inadequate tools to perform job**
- **Requested behavior is not aligned with rewarded behavior**
- **No measurement/renewal system in place**
- **Participant not well selected**

Step 4: Measure Results and Reward Performers

Leverage impact with other performance improvement strategies

- Hire people who want to develop
- Celebrate and reward learning
- Use games and contests to increase involvement
 - Celebrate every win
 - Competition focused on the goal
- Reward players with a stake in the outcome
 - Bonuses follow performance throughout the year
(10 – 20 – 30 – 40)

You know it's working when your people...

- **Ask specific, “critical number” type of questions**
- **Work without a lot of direct supervision**
- **Act like they know how much things cost**
- **Hold each other responsible for performance**
- **Turnover drops**
- **Satisfaction goes up**
- **Focus on winning not whining**

Let's Stay in Touch!



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