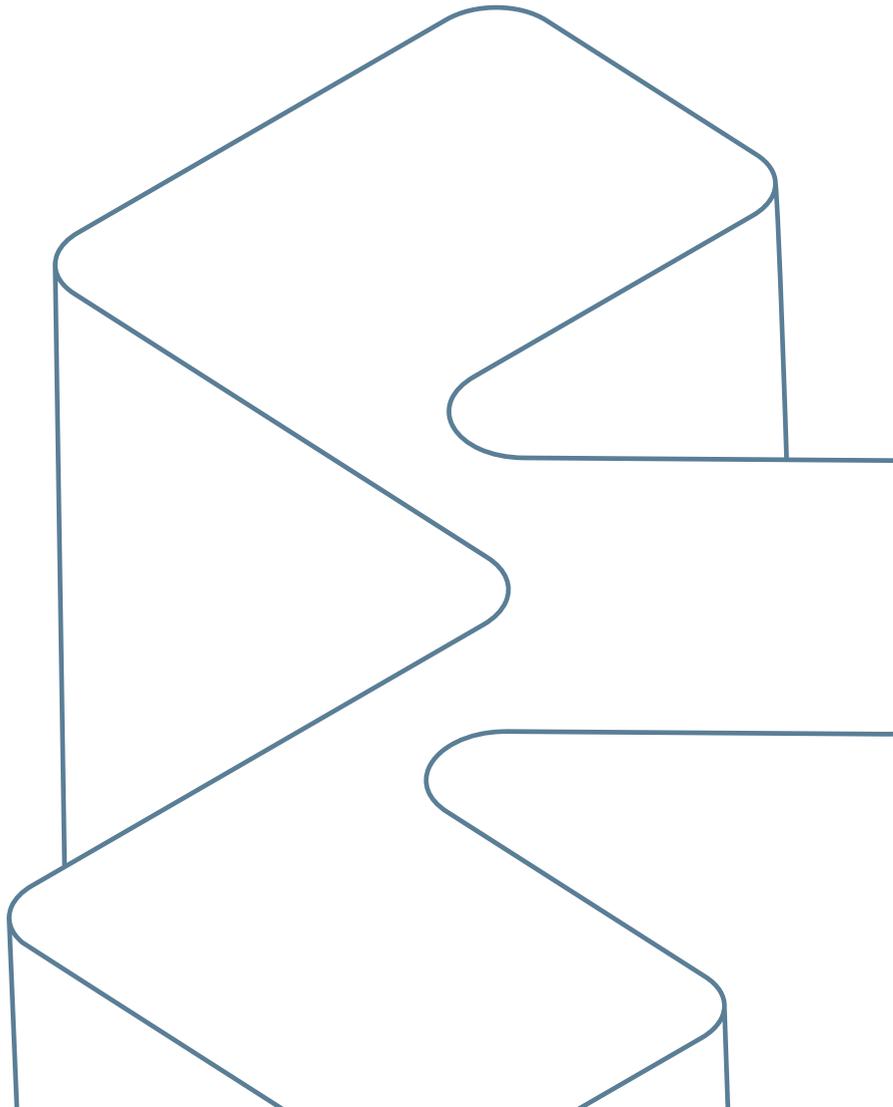




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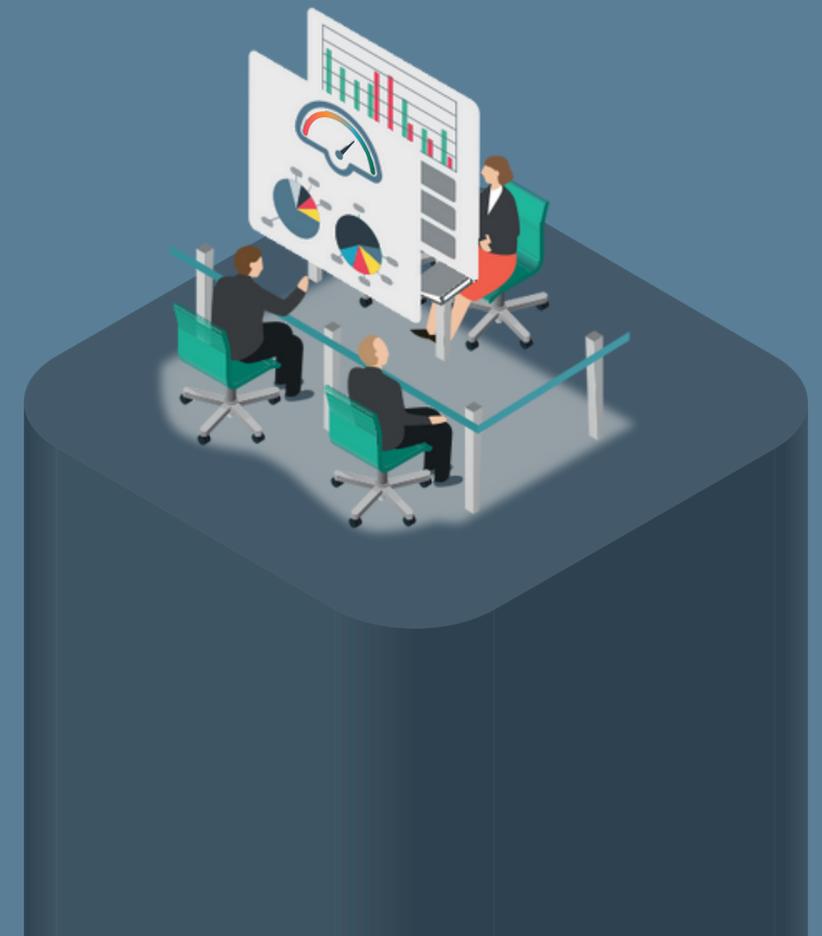
Controlling Margin & Costs

The benefits of tighter controls



The Intact Insights Series

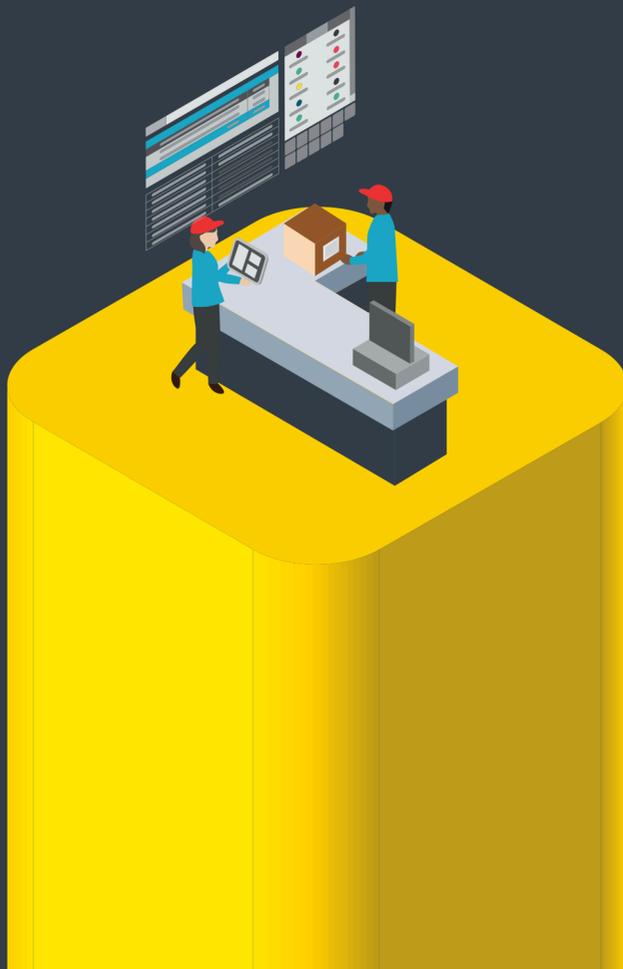
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The Macro Picture



“ **Every business should strive to do more with less, if you’re in a low-margin industry it becomes crucial.** ”

Stephen Rigby
Partner at Grant Thornton

Preparing for the impact of any economic change, be it at a local or national level, is prudent for any size or type of business.

The OECD recently stated that the global economy remains in a low-growth trap. The recent resurgence of our domestic economy is therefore extremely fragile and should not be taken for granted. We are living in uncertain times and the current period of relative stability should not foster a culture of complacency; especially when it comes to margin & cost controls.

The key factor here is uncertainty. Major political and economic shifts... who knows what is next and who knows the implications derived from these macro-economic events. They are ultimately out of our control. What we do know is that in reality, despite the upturn, the ability to increase prices is still proving difficult and costs are rising.

While many of the factors squeezing your margin are outside of your control, there are ways you can make a difference. Understanding and controlling your costs is one and implementing tighter margin controls is another. But to do this, and to make a real impact on your bottom line, you need to get relevant business controls in place and working for you in an automated fashion, via your business software.

The Margin Squeeze

The factors squeezing your margin are often macro factors that are outside your control.

Therefore, this puts more onus than ever on businesses to adopt a policy of tight margin and cost control across the business.



The Benefit of Tighter Margin & Cost Controls

Better understanding and tighter control of your margins & costs brings many benefits.

Improved Financial Position

A strategic cost and margin optimisation programme will help improve your cash flow position. However, it is companies who enforce an ongoing policy of strict margin and cost controls that yield multiple benefits well beyond that of immediate short term financial gains.

If you only set out to achieve short term financial gains you will have missed an opportunity to gain long-lasting improvements and a competitive edge. That should be enough reason for any size and type of company to think about using a long-term continuous improvement approach when creating their margin and cost control system.

Uncover Opportunities & Take Appropriate Action

The implementation of relevant, tight controls will give you and your team a much clearer picture of what's really going on in the business, helping your employees pull the right levers to drive impactful change.

Are some staff selling below margin? Is someone giving away too much discount? Are there cheaper suppliers providing the same products? What about your pricing structure? Can you see which customers, products or projects have the best margin business to go after and which you should consider phasing out (or

even stopping altogether)? With a clearer picture of what's going on in your business, quick wins are easily got.

Margin and Cost Control Culture

Embedding a culture of margin and cost optimisation across your organisation will drive continuous benefits for years to come. You should be setting up role-based access levels and controls. These controls can be as tight or loose as you require, they can differ per role or user etc. It's about finding a balance that works for your operation.

For example, your controls can be flexed to ensure staff have the ability, to say, offer bulk discounts but there will be a cut-off point, where you ultimately protect a minimum level margin. Implementing tighter controls such as these enables you to administer accountability across your business and develop the 'norms' that must be adhered to.

Your staff will know where they stand and spend less time and

effort chasing you for answers to their queries. Your customers benefit too because your staff can now offer an efficient service at the point of contact.

Spot Inefficiencies in Your Processes

Inefficient processes could be costing your business dearly but a policy of maintaining tight margin and cost controls ensures nothing goes unnoticed. As you map out each of your business processes and break down the cost and margin components of each you can forensically assess where efficiencies can be gained. For example, where a process cost adds little value to customers, you could decide to outsource this activity, automate it or strip it from your business entirely.

There will be some quick wins but it is also important to remember that certain process improvements may incur a resource cost. It is important that the longer term picture comes into play here. You are investing in future cost savings and margin growth and you cannot achieve this through cost cutting alone.

Know where to Invest and where to Cut Costs

The road to margin expansion starts with how you add value to the consumer. Therefore, not all cost is bad cost, because if you invest in building a far superior package/service that may cost more but be worth more in the eyes of the consumer, then this can allow you to increase margins.

Cost and margin control measures will help you to make a business case for investment or cost cutting. It will enable you to strategically align investment to areas that need to be improved or developed to help drive margin growth in the future. On the flip side it can help decipher where you can cut costs or outsource activities that are not an intrinsic 'value adding' element of your business.

By focusing investment on what the customer values versus making reactionary climate driven decisions you are protecting future margins.



Implementing Effective Margin and Cost Controls

Jumping straight into using your business systems to enforce tighter controls with respect to margin and cost is not the appropriate starting point.

A holistic, integrated project based approach is required to ensure you set-up and manage related controls correctly to drive long term benefits.

Step 1

Change Management

As we discussed earlier a culture of cost and margin optimisation should be embraced by all members of staff. This will not happen if they are not involved in the process at an early stage and if the rationale and objectives for the process are not clearly set out.

We would advocate positioning this project not as a cost cutting exercise but as a value adding exercise, where you wish to review every element of the business to highlight where you are/not adding value for your customers. Where are you adding value? Can you enhance this area or maximise its value? Where a process is not adding value for your customers should you outsource this activity, remove it or adapt it?

Framing the project in this way focuses staff on a positive long term outcome.

This company-wide integrated approach must be driven by senior management to ensure the importance of this project is not underestimated. Without a major change-management effort, most people will keep thinking, planning and executing in the same way. As we will see, technology can enforce your controls but ultimately without staff buy-in any process change will still remain difficult to execute.

Step 2

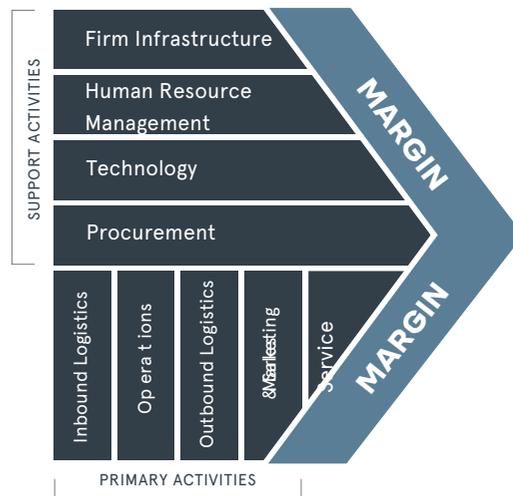
The Right Metrics & Controls

Finding the right metrics related to the true drivers of cost and margin performance in your business will only become apparent as you consult with staff across the organisation.

You need to ensure the metrics you set relate to the entire value chain not just direct product related cost and margin drivers. By reviewing your entire value chain you will identify the primary and support activities that add value to your final product and you can then analyse these activities to reduce costs or increase differentiation.

Although primary activities add value directly to the production process, they are not necessarily more important than support activities.

Nowadays, competitive advantage mainly derives from technological improvements or innovations in business models or processes, therefore it is important that these activities/processes are accounted for and measured within your organisation.



Step 3

Embed the New Controls into your Business

With your metrics decided and agreed across the organisation the next step involves setting up your business system to start tracking, measuring and reporting on these areas. It is important that your current business system provides this level of functionality so that the outcomes of this project become automated, meaning the metrics become engrained in your business.

Leaving the collection of data or adherence to rules outside the scope of tight system controls will ultimately mean that over time rules will be broken and metrics will not get measured or reported on. It's a simple case of human nature. As other projects arise, the project of the day will always take precedence.

Setting up your metrics in this way and automating relevant reports ensures the area of margin and cost control becomes a project of continuous improvement 365 days a year. It is also important that your system is flexible enough to allow you to adapt/change your metrics and controls as the marketplace changes.

Whilst a project of this magnitude may seem daunting, engaging with your business system provider early in the process can ensure you avail of their expert advice, to lead you through this process.

The Power of Modern System Controls

Use the power and intuitive nature of modern system controls



Make Your Business System Work for You

Margin and cost optimisation is at the forefront of our customers concerns; therefore, it's at ours. Over the years, through working with thousands of businesses like yours, Intact Software has adapted its software to ensure it can provide you with the widest range of relevant controls; all presented and managed in a user friendly way to help you drive positive change across your business.

It is a case of simply setting up your business system to work for you. And once it is, you won't have to worry about leaking margin or cost control again.

Over the years we have found that the key factors and related controls that can have an immediate impact on your bottom line crop up again and again.

We have listed them on the following pages. We hope they will help you on your journey to selecting the most appropriate margin & cost related metrics and controls for your business.

1. Understanding your Costs

Everything you spend money on is a cost but it is how you manage these costs in your business software that makes the difference.

People have different opinions on this but as long as you understand as a business what your definition of cost is, you can set your system up to calculate it.

If you don't know the total cost price of a product, you can't possibly work out a margin. So take the time to get this right from the outset. Are you going to take into account currency fluctuations, freight, duties, indirect costs etc. to ensure your cost of goods sold is proportionally attributed to each product line? Or are you going to take your average cost of goods sold and apply a percentage amount to each product?

Any modern system should be able to accommodate the most complex

or simple combination of costing methodologies. It's up to you to decide on the most appropriate costing format for your business that will enable you to ensure your margin calculations are actually accurate.

Remember that if you decide you would like to apportion your direct and indirect costs more accurately this does not necessarily require a huge drain on your resources. Your system, once instructed correctly, can be set up to make this an automated process. For example, where goods are delivered by container many customers will apply a general percentage of the freight cost to the related contents. However, if you wish to attribute costs proportionally to the mix of stock within the container the use of our Intact iQ Import Costings tool can make, what may seem like a complex calculation, a very simple one.

2. Understand the Difference Between Margin and Mark-up

It's important to get a common language around your business and one of the ways you can do this is by understanding the difference between margin and mark-up. The difference between margin and mark-up is that margin is sales minus the cost of goods sold, while mark-up is the amount by which the cost of a product is increased in order to derive the selling price.

Sales Price – Cost of Goods Sold = Margin

€100 - €70 = €30 Margin €30 / €100 = 30% Margin

Mark Up = Mark Up Amount to reach

Selling Price / Cost of Goods Sold €30 / €70 = 42.9% Mark Up

In this scenario, if an employee had used the mark up % of 42.9% to calculate the margin the result would have been a sell price of €122.

As you can see a mistake in the use of these terms can lead to price setting that is substantially too high or low, resulting in lost sales or lost profits. Ensure your system is capturing your profit in the format you desire and make sure everyone is using the same profit terminology.

3. Control User Access and Capabilities but Let Them ‘Haggle’

It's not always easy to monitor each and every sale, especially if you have multiple sales people with different levels of responsibility. The easiest way to control what they are selling and at what price is to set up a maximum discount amount or a maximum discount percentage.

This enables you to effectively control the scope users have to reduce pricing at an acceptable level within your business. Depending on the responsibility level, you can adjust the capability to give away margin. You can also permit overrides for more senior staff members that can be password protected.

The other option is to create a workflow feature, where discounts above a certain level are sent to you/others for approval. You can also set up exceptions to the rule, where maximum discount levels for certain key customers are amended or discounts are aligned to certain quantity breaks.

It's about ensuring you stay in control in a way that does not negatively impact key customer relationships or staff morale.

We have found that restrictions can frustrate certain employees and it was for this reason we invented the 'Haggle' feature within Intact iQ. By pressing one key your employee can bring up the 'Haggle' screen for that customer transaction. It will show your defined cost price, selling price, margin or mark up, discount levels etc. By changing any of the fields it can show the impact on the other fields. This can enable on-the-fly negotiations for your customer facing teams. Depending on the nature of the products you're selling you may also need to pay closer attention to your costs and what information is available or displayed to the end user. You can further protect your margin by creating additional buffers on a user's profile or on a product so an inflated cost is shown.

4. Effective Reporting in Real-Time

Many business owners find themselves reading reports that are already out of date or receive them too late to react to. This is not an effective way to manage your business. Modern business systems can deliver the information you want, how and when you want it and in the format you desire. Then you must decide how are you going to use the information you get. There's no point in getting cost or margin related reports or alerts set up if you're not going to read them or react to them instantly.

Remember this is not about getting bogged down in data. Whilst you can have regular reports set up to review your overall business on a standard recurring basis, you can also set up exception reports to focus on key factors that you need to be informed of in real time so you can take instant action. For example, you may want to view a daily report to see sales below a certain margin percentage or sales over a certain quantity. You may want to get an alert to your phone, mail or even as a pop up on screen

if a deal over a certain value is achieved or where a sale below a certain margin has been inputted. This is extremely valuable business intelligence that enables you to stay close to the business aspects that matter most to you enabling you to make decisions when they matter.

5. Buy Better

A key element to retaining or improving margin is how well you manage purchasing. You should be utilising the information your system is generating to ensure you maximise the margin attainable by buying well. From availing of system recommended purchase orders, including alternative suppliers or cheapest price, to managing your rebates, you can maximise the margin available through the implementation of key system controls.

For example, you can input numerous prices from different

suppliers for key products. The system can be set up to alert you to the different cost price alternatives for these products enabling you to haggle more effectively with suppliers or purchase elsewhere.

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6. Understanding your Costs

If you stock alternative products at a better margin, your system can highlight these to your customer facing staff at the point of contact/purchase. The RRP may actually be cheaper for your customer but the margin % could be better for your business. By setting up your business system to offer alternatives you empower your staff to sell better on your behalf. In addition, your system should facilitate upselling by highlighting related products linked to that transaction automatically at the point of sale.

Improve your customers experience by ensuring your system accurately reflects pricing and special offers. You don't want to have operators out with calculators to work out how they can process the transaction. Whether it is pricing or setting trigger conditions to inform the operator of an offer, it is essential that you control this from within the system, dictating a start and end date of the offer.

7. Negotiate Better

In many instances, customers do not pay a standard list price. Instead, the final price is determined through a process of negotiation between buyer and seller. To avoid having continuous battles on price, use your system to set up individual customer price lists.

Here, you can set individual discounts on regular purchases and standard prices on all other

products, thus protecting your margin. For example, you could provide large plumbing customers with a discounted plumbing price list but a standard price list would apply for tools. You can also factor in quantity breaks here. Having these simple rules set up and automated per customer enable your unique customer relationships to be catered for.

8. Effective Product Set-up

Putting the time into setting up your products correctly is key to protecting and maintaining your margin. By setting maximum discount allowed & minimum margin on products, you can block, warn, get confirmation or require authorisation before a transaction is progressed.

Again controls such as these enable you to act faster and smarter to boost your company's bottom line. For easy maintenance, we recommend using derived pricing so that any change in cost is carried through your pricing. This can ensure there is no creep in reduced margin in the event you have price increases. It is also important to ensure that all products are listed in the appropriate categories. For example, you may apply a discount % to a category of products. If you have products in there incorrectly you may be relinquishing margin without even knowing.

9. Empower Your Field Based Sales Reps

Your reps need to have the correct information to hand at all times.

Modern ERP systems can provide a fully integrated sales rep app that can enable them to operate both online or off-line, providing them with access to customer pricing, product information etc. This ensures your sales rep team are fully self-sufficient and no longer relying on the office for confirmation of orders or information on availability etc.

We hope this guide has demonstrated the value that can be gained from taking time out from day to day operations to take a closer look at your margin and cost controls.

We have been working with businesses like yours for 30+ years helping them select the most appropriate metrics for their business and then setting up their Intacts system to ensure it reports on these metrics in a timely, accurate and effective manner.

If you would like to understand more about Intact and the positive difference we can make to your bottom line email us at info@intactsoftware.com or log on to intactsoftware.com

The Intact Difference

We believe your ERP system should provide you with the tools to unlock your true business potential. We also firmly believe Intact iQ, our 3rd generation ERP software, can empower you with the systems and information you require to unleash that potential.

Built and supported in Ireland and the UK, Intact iQ is all about helping great businesses like yours take control, drive sales and improve margins.

Our mission is to organise your business information into an easy-to-use, single system where it can be leveraged to enable your business to operate at its best. We give you the unified tools and functionality you need to be independently more operationally effective and to grow accordingly.

Aimed at ambitious merchant and distributive trade businesses looking for greater controls and flexibility, Intact iQ is a full .NET application that comes bundled with a toolset that facilitates the nuances that often exist in a growing company. Our unique personalisation layer enables perfect fit automated business processes and role-based tailored screen design. It's all about what you want to do and how you want to do it.

Intact iQ excels in many verticals across supply chain management, office supplies, wholesale & distribution, trade counter, ePos and many more. Its 'Total Integration' layer supports always on communication between it and any other 3rd party system you may currently use..



“Best practice for a business should never be dictated by a software company. Many businesses grow and succeed because they have a unique or familiar way of working. We encourage that ethos and have built software to support it at all levels.”

Justin Lawless, CEO, Intact

Get started at
intactsoftware.com

