



# **Why In-House Analytics Fails**

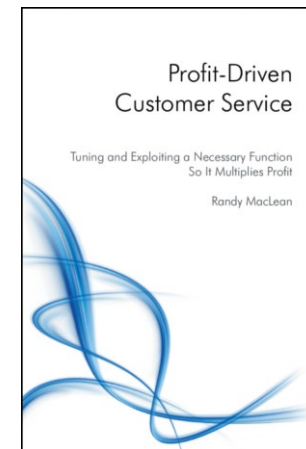
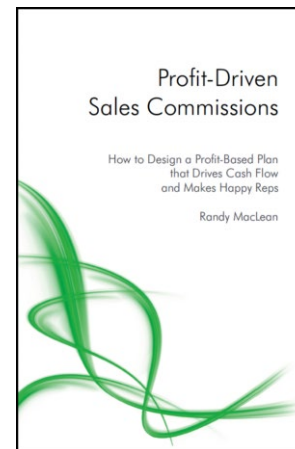
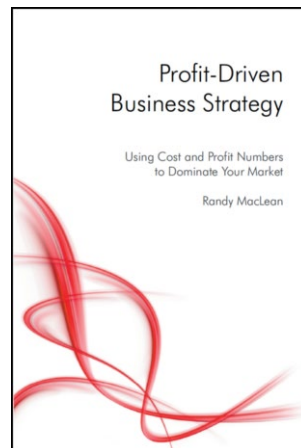
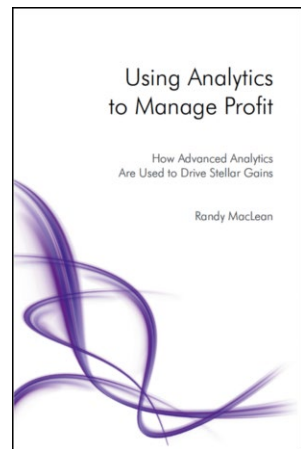
# Topics

- Why In-House Analytics Fails
- Objectives of Analytics
- Return of Efficiency
- Success with Segmentation
- Gross Margin & Other Mistakes
- Your Analytics Strategy



# Randy MacLean

- creator of WayPoint Analytics
- 12+ years working with distributors on detailed costing and profit analysis
- invented many of the advanced metrics in use



# Why In-House Analytics Fails

- too much time spent gathering & organizing data
- too little time spent on analysis & action
- lack advanced metrics
- can't get to the real drivers of profits / losses
- too much emphasis on low-value metrics like margin



# Financial vs Operating Metrics

- **financial metrics** primarily reflect company's value to shareholders & financial backers
- product of operating metrics
- **operating metrics** reflect productivity & operating efficiencies
- product of policies, practices & efforts in day-to-day operations



# Critical Objectives

- extract more value from the market than competitors
- Efficiency  
(op cash / profit produced per dollar expended)
- Productivity  
(op cash / profit produced per FTE)



























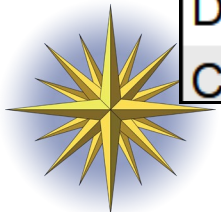
# Efficiency

- customer relationships
  - op cash / logistical event
- operational efficiency
  - op cash / FTE | op cash / exp\$
- vendor relationships
  - logistical efficiency
  - price supports & freight in



# Money-Losing Invoices

Efficiency Opportunities	Margin	Losing	Making	Unrealized
Royco International Inc	14.2%			64,635
Bonitz Brothers Inc	39.1%			35,305
First American Equity Ln Svcs	18.1%			25,897
12th Street Associates LP	15.2%			24,089
Westover Companies	22.7%			18,001
Stokes Merrill Inc	23.2%			16,907
Spartan Steel Co	11.4%			14,655
I Party Retail Store	13.9%			13,996
David Penske Chevrolet Inc	25.4%			13,880
Bjr Associates Inc	17.8%			13,442
Dynamics Research Corporation	16.8%			12,662
Choate Hall & Stewart	30.3%			12,657





# Segmentation

- purpose: create groups for targeted action
- problem: visible delineators are ineffective
- solution: profit value from analytics
  - High-Leverage (HLA)
  - High-Efficiency (HEA)
  - High-Potential (HPA)
  - Profit-Drain (PDA)
  - Reg+ / Reg-



# Profit-Value Segmentation

High-Volume Accounts													
Customer	Rev \$	\$	GP %	/inv	Exp \$	%	NBC \$	%	Type	Invoices Total	Losing	NBC realiz	lost
Statoil Marketing & Trading...	798,084	272,791	34.2%	798	76,184	9.5%	196,606	24.6%	HEA HLA	342	17.0%	93.1%	(14,663)
Presbyterian Ltc-1 Inc	491,438	139,407	28.4%	989	32,887	6.7%	106,519	21.7%	HEA HLA	141	24.1%	94.6%	(6,030)
I Party Retail Store	1,040,680	146,317	14.1%	536	49,703	4.8%	96,614	9.3%	HEA ---	273	15.4%	74.6%	(32,859)
Parker Seal Group	541,949	122,882	22.7%	650	39,447	7.3%	83,436	15.4%	HEA HLA	189	43.9%	87.7%	(11,749)
12th Street Associates LP	871,521	133,120	15.3%	571	51,549	5.9%	81,571	9.4%	HEA ---	233	34.3%	72.6%	(30,826)
Ohio Machinery Co	481,422	110,812	23.0%	656	34,463	7.2%	76,349	15.9%	HEA HLA	169	37.3%	85.0%	(13,448)
Carland Industries Inc	217,813	81,254	37.3%	883	12,979	6.0%	68,275	31.3%	HEA HLA	92	12.0%	95.6%	(3,174)
Private Indstry Cncl of Phila	263,417	82,287	31.2%	623	27,991	10.6%	54,296	20.6%	HEA HLA	132	69.7%	73.0%	(20,117)
Raytheon Company	173,887	59,544	34.2%	1,452	5,478	3.2%	54,066	31.1%	HEA HLA	41	17.1%	86.2%	(8,671)
Caliber Learning Network, Inc	155,790	61,635	39.6%	1,081	8,409	5.4%	53,226	34.2%	HEA HLA	57	7.0%	98.5%	(785)
Uniland Partnership of Del LP	410,926	69,875	17.0%	907	16,948	4.1%	52,927	12.9%	HEA ---	77	15.6%	80.2%	(13,038)
Liberty Mutual Insurance Co	328,113	73,644	22.4%	498	25,866	7.9%	47,778	14.6%	HEA HLA	148	26.4%	43.6%	(61,683)
Locke Insulators Inc	140,353	54,389	38.8%	892	8,969	6.4%	45,421	32.4%	HEA HLA	61	16.4%	96.7%	(1,566)
Cadema Corporation	215,808	53,474	24.8%	1,138	12,487	5.8%	40,987	19.0%	HEA HLA	47	10.6%	96.1%	(1,647)
Kilian Mfg Co	179,609	51,289	28.6%	564	14,321	8.0%	36,968	20.6%	HEA HLA	91	19.8%	95.7%	(1,665)
Alstom Signaling Inc	332,988	47,040	14.1%	2,240	11,695	3.5%	35,345	10.6%	HEA ---	21	9.5%	99.7%	(89)



# Quantum Costing

- for distribution
- top-down
- precise
- dynamic
- MUCH more accurate



# Activity-Based Costing

- for manufacturing
- bottom-up
- errors scale up



# Gross Margin & Other Mistakes

- Gross Margin
  - addresses only price, not Cost-to-Serve
- Fixed / Variable Costs
  - for forward planning only
- Interest Costs
  - difficult to control / sustain
  - low return for activity required



# Vendor Relationship Metrics

- credit rates
- rebates
- freight in



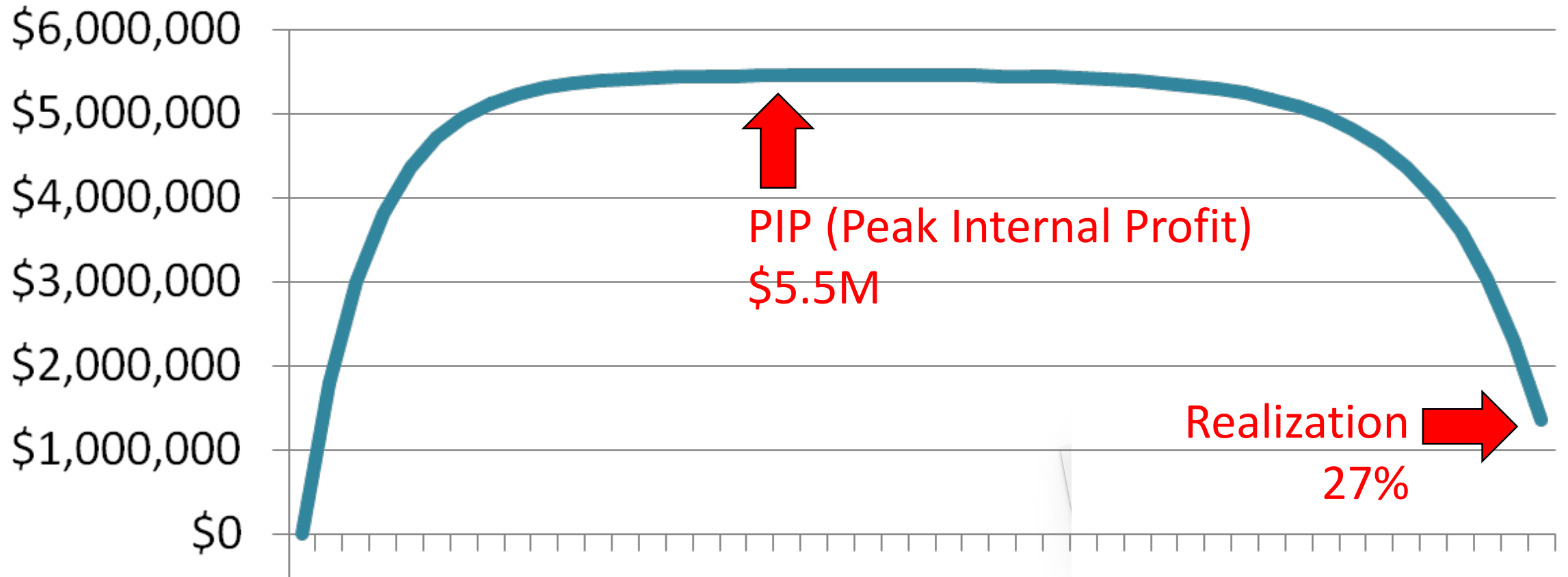
# Advanced Metrics You Need

- GP\$ - op cash
- Exp% - expense rate
- NBC% - profit rate
- G2E - op cash to exp\$
- P2E – profit to exp\$
- whale curves





# Whale Curve



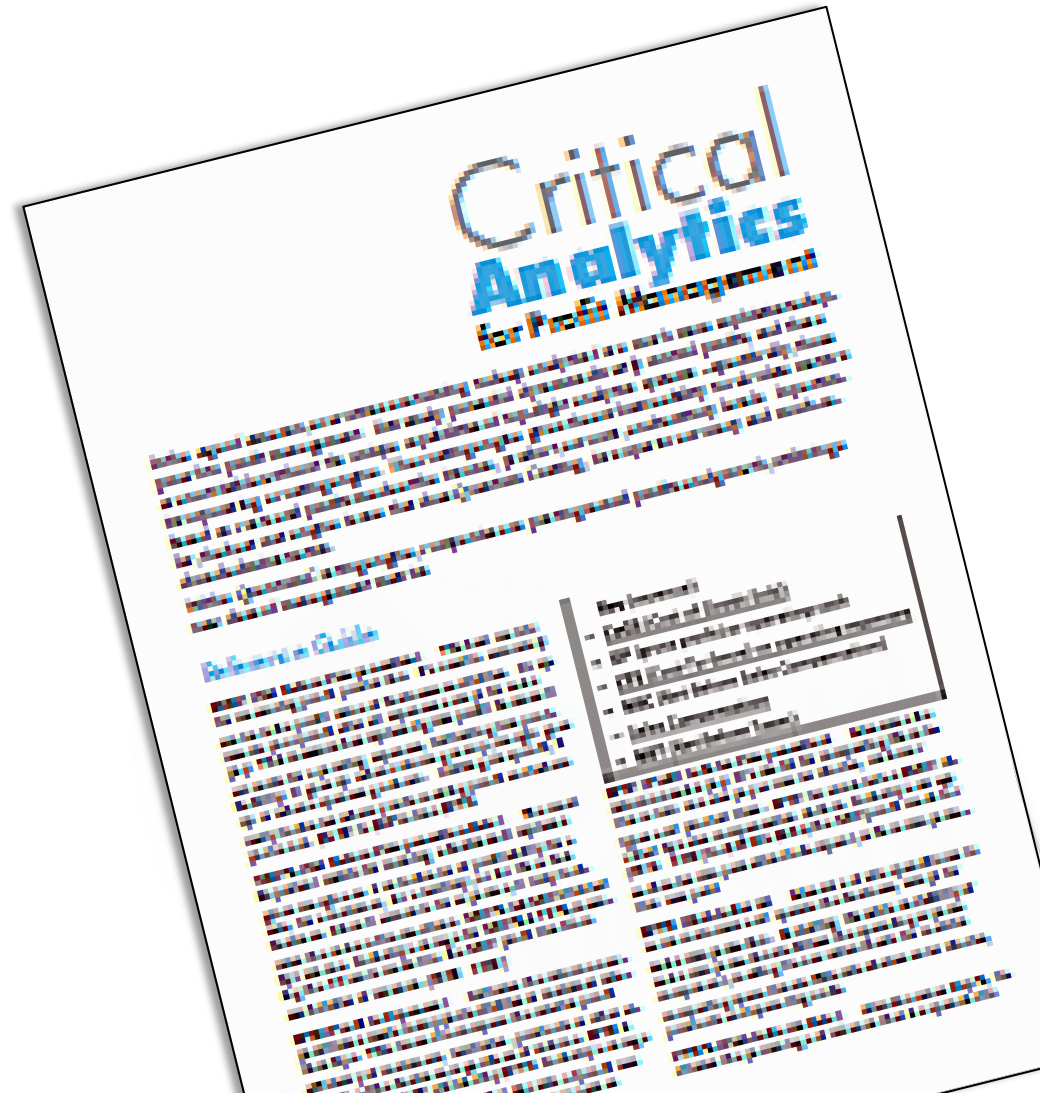
# Your Analytics Strategy

- bias toward action (use tools, don't make them)
- deliver insights beyond historic capabilities
- drive improved business models / pricing / etc.
- focus on best / worst customer relationships
- increase efficiencies: vendor, operations, customers
- raise customer experience & increase customer success



# Follow-up eMail

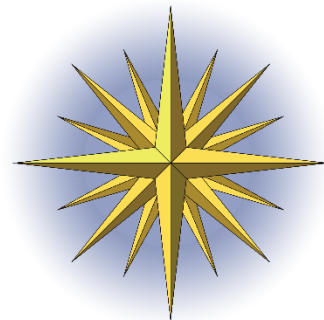
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