Bonus Episode

The Analytics of Super-Performing Distributors

<u>Our Guest</u>

Randy MacLean
Founder
WayPoint Analytics

In this bonus episode Dirk has an in-depth conversation with Randy MacLean to understand how business leaders are developing mastery over the things that drive efficiency, leaving no room for those that haven't in the competitive landscape.

Learn More About Randy at:
www.randymaclean.com

Dirk Beveridge: Welcome back to Innovate For The Future where those with the innovative distributor mindset come every week to fearlessly pursue tomorrow. I'm Dirk Beveridge, your host and I'm thrilled that you are with us. As I travel this country I am constantly asked, Dirk how do we know how ready we are and how ready our company is to innovate? I created a new and a free, online assessment that identifies exactly that. Visit I-D for innovative distributor, visit idmindset.com. That's idmindset.com and you'll find out how ready you are to innovate.

For now let's jump into today's, just great, episode with my friend from WayPoint Analytics. The president, the founder of WayPoint Analytics, Randy MacLean. Randy is helping organizations. This guy is on a mission to help distributors find profitability that is being lost thought their day to day operations and sales and marketing. As analytics are coming into broad use, companies are using new insights into the components of great financial performance to readdress an old challenge, operational efficiency. As analysts, we're constantly, the analysts at WayPoint Analytics are constantly being driven to invent new vocabulary and new performance metrics to measure and improve the components that drive profitability. The industry leaders are those that have developed, or are developing, mastery over the things that drive efficiency, leaving absolutely no room for those that haven't in the competitive landscape.

In this episode, Randy and I explore what are the latest analytics are telling us about the methodologies of super-performing distributors. Get ready, enjoy, Randy MacLean.

Welcome back to Innovate For the Future. I am thrilled to introduce you today to my good friend, Randy MacLean who is the president and founder of WayPoint Analytics. Randy is my go-to guy whenever anybody in distribution is thinking about how analytics can drive profitability in their business. Randy I am so excited that you are with us today, thanks for joining us on Innovate For The Future.

Randy MacLean: Thanks Dirk, this is really a great opportunity to have a great discussion over some of the things that are happening in the market and the industry. I am thrilled to be part of it.

Dirk Beveridge: No doubt about it and if there's anybody that has their pulse of what's going on the in the industry and how data and analytics and technology is going to be impacting the business of distribution going forward, man it's Randy MacLean. As I said Randy you, when I think about analytics and metrics of top-performing, even, let's call them as you do, super-performing distributors, I think about you. Let's start with the end in mind. Can you define for us the financial performance, the metrics that you use to describe a super-performing distributor?

Randy MacLean: Yeah, of course. For the last decade my firm and myself have been looking at and assisting companies and distribution trade with their financial performance. We spent a decade thinking about the things that create superior financial performance, high levels of profitability, high level of cash flow. We oversee over $70 billion worth of distribution business in our portfolio with our clients. We can see where people are doing it well and doing it not so well. There's always been a general sense that certain or typical companies run around the average and a lot of the industry information surrounds what industry averages are. It always struck me as a little odd that people were striving to be average which is what happens when we start chasing the industry benchmarks.

We used to think of the market as having companies that run a typical performance as maybe a three to 4% NBT or Net Before Taxes bottom line in a nominal year. We always knew there was a second tier of companies that run about 10 to 13%. They're running about three times the profitability of a typical company. Lately there's been the emergence of the super-performers. These guys run 20% plus to bottom line. That means they're conversion to revenue of bottom line profit is about one-fifth. That is an extraordinary performance.

In 2016 we spent a great deal of time looking at the markers of companies that had that super performance. See what set them apart from other companies that look just like them for the product lines they carry, the way they carry, how they run their operations. They mostly looked the same but when you take a look at the components that lead to a high profit performance, these companies have certain philosophies and certain processes that other companies don't have. We believe that those are the things that put them up in the place where they're making five times as much as most companies.

Dirk Beveridge: Boy isn't that something and you've got real data, real insights. Did you say you're managing $70 billion?

Randy MacLean: Yeah, in excess of $70 million amongst our clients. We oversee all of the numbers and analytics and crunching for that. We can aggregate those numbers but we can also dig in and see what kinds of things add up to the components and rate the performance or what kinds of things actually do the opposite.

Dirk Beveridge: You talk about philosophies and processes are the the categories of success factors that stand out from these super-performing distributors. Let's talk about philosophies at first Randy. When you talk to your clients, when you look at distributors who have broken through that three to 4% and have even broken thought that 10 to 13% who are those super-performers with 20% NBT. What are the philosophies? What are the mindsets of these businesses that you're labeling as a super-performers?

Randy MacLean: That's a great question and in fact that's kind of the core of what gives a company an edge. I'm a numbers guy and I run into a lot of numbers guys in the business. There are certain instincts that say that two and two will make four and people get that. The two markers of executives that really lead the stand-out companies, the companies that go way above and beyond is, I would say, first of all they're curious. They pretty much believe that they don't know what's going on in the business and because of that they spend a lot of time using analytics numbers, taking a look at what's going on and [turning 00:08:42] their business and out in the industry to find out what actually drives the business and what actually makes it work.

The opposite philosophy is you wind up with somebody that, they've been in the business for a long time and they probably grew up. Their dad had the business before they had the business and they don't think of anything being new under the sun. The philosophy there is don't upset the [aplicart 00:09:07], whatever works a decade ago, or a year ago, or whatever, is what you should be doing. The companies that are really killing it are the ones that recognize that things are changing. They have to constantly look back back and see what it is because of things that used to work don't work anymore.

Dirk Beveridge: Sure, and that curiosity caused them to constantly reevaluate.

Randy MacLean: Exactly. The second philosophy is that change is your friend. In fact, change is something that causes opportunities to appear that you can tackle, that your company can go after. Most of your competitors will not have this philosophy so they'll be, as they say, generals are always fighting the last war. Many of your competitors will be fighting the last sale and the last trend and the last thing that happened in the market.

One of the philosophical differences we see in companies ... and by the way, these companies have a huge [distributed 00:10:11] core, they're lots of fun to work with, they're always laughing and a lot of great things come with the success of driving a company forward successfully. They're really good at change. They're able to use their curiosity to find out what kinds of things are or are not working anymore. Then they can use their aptitude for change to get something done about it. Those companies make extraordinary profit margins.

Dirk Beveridge: Yeah I love it. I love the thinking that says, from a number's guy, right? You say that it starts with this philosophy of being curious and really believing that change is your friend. That ties in, Randy, very strongly to something that we've recently created called the Innovative Distributive Mindset Scorecard. What we've done is, we've identified and they tie right into your two, eight mindsets of those leaders, those organizations, those distributors, that are going to be able to innovate for the future. That are going to be committed to becoming that super-performer, if you will. I believe it begins with that mindset, it begins with those philosophies. I really love that.

In your opinion, Randy, what's the biggest risk for an established distributor from achieving this definition of the super-performing distributor as we move toward this next decade? For those that don't have this curiosity and those that don't look at change as being their friend what do you see is the biggest risk?

Randy MacLean: Well, I think you put your thumb on it. If you're not moving forward, if you're trying to stay still or you're trying to play defensively and make sure that nothing gets broken, the people that see change and are curious are going to pass you by. The market is changing mathematically in a way that is going to perpetuate or make permanent some of the changes in market share and so on. As-

Dirk Beveridge: Randy can I jump in? What do you mean by it's changing mathematically? The market is changing mathematically?

Randy MacLean: The best players are able to tilt the playing field so they can get a retain the best customers and they [won't 00:12:39] give up and lose the worst customers. What happens with that is companies that gain too many inefficient relationships will have a very difficult time making money or supporting cash flow. They won't have the resources they need to win the best customers back. They won't be able to give up the bad customers that are sinking them. On the other side of the market, the companies that attract the best and most profitable customers find it easier and easier to provide price and customer service benefits because they have the cash flow to support it. The other companies won't be able to match it.

We're going to passing a tipping point where market position and profitability rates get locked in. If you're on the wrong side of the divide, you actually just won't have the financial resources to do anything about it. What's always made it possible for it to be an even playing field is a general lack of information across all players. Even people that had a natural aptitude to do really well, didn't have the tools to do the job. With the advent of some of the new systems to come on the market, [lineiener 00:13:59] profit analytics and other things that companies are beginning to adopt, they're getting an edge that allow them to give up the last inefficiencies left in the market without harming their profitability.

When this tipping point is crossed in each market segment the companies that [tail annual 00:14:22] will not be able to survive. There won't be any[inaudible 00:14:28] they can do to reverse the process.

Dirk Beveridge: I would agree 100% Randy, thank you. I love what you just said. Having the ability to give up those last inefficiencies. You mentioned that the super-performers are those that have the right philosophies and the right processes, right? If I'm reading into this right, that the right processes suggest that we're going to have to give up, as you just said, these last inefficiencies. If you don't mind, can we dive a little bit into this efficiency, this operational efficiency that I think that you're talking to us about. I know that you're helping organizations use these new insights that you're talking about here through analytics to readdress this old challenge of operational efficiency. Can you explain this a little bit more?

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Dirk Beveridge: Can you explain this a little bit more?

Randy MacLean: Yeah. I'm glad you led into that aecia that's one of the things that every manager and every executive needs to rethink. They need to spend a little bit time just getting away from the dumpster fires and the day to day and start thinking about their operational efficiency, thinking about their efficiency. I should say that one of the hallmarks ... I talked about the markers of the super performing companies, one of the things that's that the core of it is they are very good, or very, very efficient at the core competency of a distribution company. That is obtaining a product form vendors, breaking up, repacking it and selling it to customers. That's the core function of a distribution company. You have to be very, very good at that if you want to be a market leader or even maybe even a serving company in 2025 or even in 2020. That core competency is something you have to be good at.

The best way to put a term to that is efficiency. Efficiency by definition is getting the most out of some kind of input that you put in. If you're spending a dollar in delivery you've got to get as much as you can out of that delivery dollar. You have to get as much out of the sales dollar, as much as pick, pack, ship warehouse dollar as you can. Those efficiency measures are components of a super high financial performance. In order to get out of that high performance you have to be good at all the component parts of that performance.

Dirk Beveridge: Interesting. You mentioned that you're a numbers guy. WayPoint Analytics is ... I see the financial reporting and capabilities of all that. Here you are now, talking about operational efficiencies. Haven't' we been talking about this, becoming very good at our core competencies, for years? Would you say that this is- go ahead- would you say that it's left over from the eighties?

Randy MacLean: But what's changed is the tools of change and what we know and what we can find out has changed enormously. If you're a NASCAR fan, you've probably heard people say the race is won in the pits. There's a lot of wisdom to that because if you look at a NASCAR race a certain amount of time is spent with the car on the track going as fast as it can in the pack. A certain amount of the race is run where the car's all by itself, doing whatever it wants to do to be prepared to be out in the track. A NASCAR company, or a NASCAR team can look at, how do we spend less time in the pits? What's going on in the pits? How do we make a tire change faster? And look at the component parts.

A distribution executive needs to do the same thing. You need to take a look at each part of the business and find out what you're getting for the dollars and the time and the head count and whatnot you're investing. How does that compare? Is that one of the opportunity areas for you to make the company more effective and more financially efficient? It's those conversions that we have, revenue into operating cash, operating cash into operating profit, those conversions are the places where ... those are the items that measure the components of the overall efficiency of the organization. Attacking those things you can put your hands on is the way to make the whole company more "efficient."

Dirk Beveridge: I love it and I think this is real important. I'd like to slow down for me, a little bit. Let's look at this term conversion again. Break that down for me a little where you started to tick off some of the conversion metrics if you will. Define conversion for me, tell me its importance again, and then tell me the ways in which these super-performer distributors are really looking into this metric and this ... this metric of conversion, if you don't mind.

Randy MacLean: Absolutely and conversions and balance are two important terms now for translating what we're finding in analytics into what we do to affect our performance. Conversions are really important if you think about the company. Every company has a mission statement. A distribution company the mission statement will be something like, we provide high quality products and services to our customers to help them meet their needs and blah, blah, blah. A purpose of the company is to convert revenue into bottom line profit. That's the purpose and that's the conversion. We look at the profit rate of a company, a company running three of four or 5% NBT is basically converting three or four or 5% of the revenue dollars into bottom line profit. That's going back to the NASCAR analogy, that's what happened. What was you're average miles an hour in the race? How long did it take you to do 150 laps or 200 laps? Those are the measures that some at the end. In our financial statements, that's our bottom line profit, that's our margin rate, that kind of thing.

The way that you improve that is look at all the conversions that go on the company. The first conversion that we have is revenue into gross profit dollars. Really that's gross margin percentage but that's really a conversion. This is where the philosophical part comes in again. Most people look at profit margins to say, well that's ... we raised the price, we lowered the price, that effected our margin. Of course that's true. In reality the gross margin percentage is a measure of how efficient the company is at setting pricing to convert revenue into operating cash. That gross profit dollar number, that's the operating cash for the company. That's the money that you have to spend on operations, to generate profit. The more of that that you can generate and the better you are at generating that, that's one of the components of profitability.

Dirk Beveridge: Isn't that something? You mentioned this conversion right? Everything that our purpose is, to convert this, our revenue, into bottom line profit as you're describing but then you also mentioned this term, balance. What do you mean by balance in this equation?

Randy MacLean: That's actually a really key factor, that's one of the areas where numbers guys have a disadvantage. I tend to look at things in a black and white terms, it is or it isn't. The world doesn't work very well in a black and white mode. Frankly we will often say we have these customers. Our clients look into the analytics and they can say, here are the customers that are profitable, here are the customers that are not profitable. Somebody in a [binary mode 00:23:08] will say let's just fire all the unprofitable customers. That doesn't make sense and it could be deadly for the performance of a company.

The better way to manage it is to shift the balance of things. 62 and a half percent of all invoices loose money in distribution. The interesting thing is, a super performing company only has about 40% of it's invoices losing money. It's not zero, it's just a lower number. The take away from that is, if we go into any kind of environment and we can see that some part of it is not so good and some of it is really good, we're not there to try and cut out all the not so good stuff. What we're there for as a wise and capable manager is to shift the balance so we have more of the good and less of the not so good. It's the balance of things in many areas of the company and changing those balances and just moving the dial a little bit that cumulatively add an awful lot to the bottom line [crosstalk 00:24:14]

Dirk Beveridge: Just goes right to the bottom line, huh?

Randy MacLean: Performance of the company. We've seen companies not increase their bottom line by 10 or 20 or 30% but by 400 and 500 and 600%. Those changes don't come from doing everything perfectly. It comes from shifting the balance of the most important things in the company in the right direction and getting some traction on many, many different things that add up to the actual performance of the company.

Dirk Beveridge: Boy that is just brilliant, brilliant insight Randy, thank you. As we're shifting the balance, one area is ... you talk about in terms of this focus is shifting on the percentage of invoices that loose money, just. I'm saying that with quotes, right? Just moving that from 62% to 40% can move you from the bottom tier financially performing distributor, maybe up into that super-performer with others. What is the latest? What are the latest analytics telling you, telling us, about the methodologies of super performing distributors? Where are some of these other shifts in balance taking place in these super performing distributors?

Randy MacLean: One of the insights that we've got over the last decade is that we don't have ... nobody gets a lot of success by trying to manage product and product lines. What I mean by that is this. There is no product anywhere that's inherently profitable or unprofitable by itself. You can look at a product, you can look at any given product in a similar quantity and an identical margin sold to two different costumers and have two wildly different profit performances on it even though the margin hasn't changed. Because we've had a lack of good analytics, we've been focused on gross margin and gross margin is just not correlated to profitability in any way at all because it's only half of the gross margin/cost-to-serve equation. If you don't manage both sides of that then you may as well not manage anything at all.

The main point of it is that it's the customer relationships that decide whether a product is going to be profitable or not. In distribution we're very, very product-centric. We stock product, we buy product, we educate on product, we sell product, we warehouse product, we move product. We look at everything through a product lens. We have a lot of companies that have put enormous effort into trying to manage product lines for profitability, even product pricing for profitability. Really that dynamic that effects profitability and distribution is the customer relationship. If we shifted some if that energy, or in our clients, all of the energy almost into managing those customer relationships, that's where we get to control profitability and so-

Dirk Beveridge: Tell me how the super performing distributors manage their customer relationships different than average or below performing distributors.

Randy MacLean: First of all they frankly have a deeper understanding of their customer base. They understand which customers are super high profit because they're super efficient players and they fall into what we call the high efficiency account group. These accounts produce above average operating cash, or op-cash as well call it, at a below average cost to serve. These companies are extraordinarily important for growth. If you grow with HEA type accounts, these high efficiency accounts, they will grow your revenue line, you're operating cash line and your bottom line at a rate that is faster than they increase your expenses as a business. They not only give you more operating ... more cash flow and more profit, they also reduce your need, or they don't grown your need for infrastructure to support them as fast as those other two numbers grow. They not only grow your absolute profit line, they grow your profit rate at the same time. It's a highly leveraged opportunity. We see those.

There's another really, really important, maybe the most important group, and those are the high leverage accounts. We call them the HLA's. When you look at the conversion of revenue to bottom line, they'll give you four or five, six times as much profit for each incremental dollar sold into those accounts as other accounts in your portfolio will. If you're a sales manager and you want to use a penetration play, which is something that's really important and quite smart, if you put it on across your entire customer base, you wind up increasing profits in [inaudible 00:29:45] where you make money and increasing your losses in the accounts where you loose money. The [net of fact 00:29:49] is pretty much awash. If you focus instead on these high leverage accounts, then you get very, very steep returns for your input effort. It also narrows the target group substantially. So [crosstalk 00:30:03] great opportunity in doing something on segmentation. I could spend a whole half hour talking about the segmentation, which we should do sometime.

Dirk Beveridge: I'd love to do that. Randy but help me with the word relationship again. You've gotten me on the edge of my seat saying holy cow, this makes so much sense! I still haven't connected these ... this insight that the analytics can provide to us for the high efficiency and the high leverage accounts.

Randy MacLean: I'm so glad that you asked about that because that really is the crux of it. There's a cost-to-serve associated with doing business. The cost-to-serve is your [only 00:30:48], in any account, how many orders you're going to process, you have to pay people to put the orders in. How many pick, pack, ship operations are you going to have across the product. The op-cash that's generating by ... generated by that account. How many deliveries you're going to have to make. Then how many invoice events you're going to have to have to monetize the relationship. That's really what the relationship is all about, how much interaction do you have with a particular customer account.

If you look into your own numbers in any business you're going to find the companies that give you enormous [amounts 00:31:24] of op-cash and consume very little of your infrastructure and resources to do that. Other companies that are just as big or bigger that consume much more than they're actually funding out of your infrastructure headcount resources. Those relationships are much, much different. When we get back to shifting the balance-

Dirk Beveridge: And the degree of interactions, right?

Randy MacLean: Yeah, a healthy company may have two companies ... A healthy business will want to have more companies that generate great cash flow with low amounts of their infrastructure being consumed and fewer of the accounts that are the opposite. Those are the accounts that really drain the profits out of every business, take away money that's already been made.

Dirk Beveridge: Boy I love it. The use of analytics, the use of technology like WayPoint Analytics that can provide this type of visibility, this type of transparency, this type of real insights, I just see the power of it in listening to you. The term data, the term big data, the term analytics, I think Randy, is kind of threatening to some individuals. Where do we start? I think that sometimes acts as a drag to get people, to get leaders in distribution certainly at the bottom end of the performance spectrum. I think it acts as a drag in terms of getting people started.

What would you suggest in terms of, if we've got a listener right now who's saying they've got to get going. This is my future, this is going to impact the profitability of our business in a big way. I don't know where to start, I'm a little reluctant, I'm a little afraid, I don't know about analytics and all that. Where would you suggest they start in the most non-threatening way possible Randy?

Randy MacLean: There's a really great opportunity. I'm glad that you've asked this question because I too have talked with many, many people that are sort of like sounds great but how would I do that? In reality us techy people invent all these terms to kind of make ourselves look big and keep other people from joining the club. Big data is just a ... really a term that says go back and look at enough information about what's going on so you can get a sense of what ... where things are and where they can be improved. Big data doesn't mean going out necessarily and collecting the 70 or 80 or $100 billion dollars of information like we have. It may be just nothing more than taking a look at your last year or two years of performance and seeing what's going on in your own business. You can get some perfect insights in that.

We do have an opportunity. We have put together a free assessment for people in the distribution business to take. They can go online, they can put in about 30 numbers and they system will confidentially send them back a 25 page analysis of their business applying all the best and latest metrics to their company. Telling them not only how they did but comparing them to our $70 billion worth of benchmark data so they can see how they compare to others. I think somewhere around this podcast you have a link that can get people to that.

Dirk Beveridge: I'll get them to, I think you're calling it the Distributor Performance Assessment Project and I will. I'll have a link to that in the show notes here that everybody can get to that. Randy this has been amazing. In addition to that Distributor Performance Assessment that you just mentioned, to the listeners who want to learn more about Randy MacLean, will learn more about WayPoint Analytics, how can our listeners get in touch with you and learn more about you in WayPoint Analytics?

Randy MacLean: We're delighted to show anyone the kinds of analytics that our clients use to get advance control over their company performance. They can go to waypointanalytics.com. If they'd like to know more about me and get some of the insights and some of the things I've had to say about these kinds of things or to find my books they can go randymaclean.com. I think both those links are somewhere in this podcast as well.

Dirk Beveridge: We'll put them in the show notes as well, thanks Randy. The other thing that we have to let our listeners know about it is the amazing two day conference that you and WayPoint put on each year. It's called the Advance Profit Innovation Conference. This year it's going to be on April 20th and 21st out in Scottsdale, AZ at the beautiful Fairmont Scottsdale Princess. I'm honored to be on the platform with yourself Randy and about 10 other individuals, experts from the industry. Really the forward thinking, innovation-driven distribution leaders and experts that you bring together. Who really, I think, are operating on the [bleeding 00:36:51] edge of distribution and analytics, profitability strategy and [surface 00:36:54] You bring us all together for two days where you get about 100 distribution leaders, like those who are listening today to Innovate For The Future to come.

Those of you that want to learn more, and I really highly, recommend that you join us down in Scottsdale, April 20th, 21st. You can get all that information at apicconference.com. That's A-P-I-C for Advanced Profit Innovation Conference, apicconference.com. You can get all the details to join Randy and I and about 10 others who are going to be sharing the wisdom on April 20th and 21st down in Scottsdale at the Advanced Profit Innovation Conference.

Randy real quick, we're up on the clock here but if you wanted to share one or two key insights relative to the great conference you put on down in Scottsdale, what do you want our listeners to know about what's going to happen on April 20th and 21st?

Randy MacLean: We've been privileged for the last 10 years to be a principal sponsor of the conference, and to have the great opportunity to associate with many of the top thinkers in the business. I would suggest that anybody that wants to come to the conference, you should bring a team. If you come by yourself and you'll ... there's no way you can see the whole conference in two days, it's a multi-track conference. You'll get an hour maybe explaining what you saw and go back to business as usual. If you bring your opinion leaders with you to the conference then your meetings when you get back are what are what are you going to do with this information? There are many companies that have said it's the best conference they've ever been to. They see 10, 12, 14 of the top people, not just two or three like they do at the normal industry events. They have more actionable information coming back out of that ... at a conference than they get from anywhere else.

I'd certainly urge you to come out and join the [condary 00:38:52] of people that will be there. Also to rub elbows with other people like yourself that are facing the same challenges that your are, some of who have solved many of the same challenges that you have and have an opportunity to talk with other CEO's, CFO's and sales leaders about the challenges of the industry.

Dirk Beveridge: You betcha. Randy thank you and I'm honored to be a part of it with you. Thank you for having me again this year. Randy thanks for joining us on Innovate For The Future. I will see you in Scottsdale on April 20th, 21st. Thanks for joining us.

Randy MacLean: Yes sir and thank you all for spending sometime on the podcast with us. I hope this is something that gives you real benefit and that your business and your life changes because of what you've heard.