



AdamsonPVFSupply

BY JOAN ADAMS

Birds In Hand

The best opportunities for increased sales are right under your nose.

These days, PVF suppliers are getting squeezed pretty hard from all sides. Customers no longer accept any price. They know the vendors' prices, and they will pay only a low mark-up above that price. Vendors, too, are faced with higher manufacturing and distribution costs — and they are raising prices. Vendors also have gotten particularly sensitive to the size of the supply house mark-up.

The result? PVF distributors' margins are eroding, costs are going up and profits are flat or worse.

The typical response we have seen at supply houses is to rally the sales force to bring in new accounts. This approach makes sense in an intuitive kind of way — “We will sell our way out of this predicament” — yet this is exactly the wrong response.

Here's why.

- The PVF supply house is paying the salesmen to find new clients. Until they find one, this is pure expense.

- When a new account is found, the only way the sales guy can get that “break-in” sale is to lower the price of the PVF (and those margins are too low already, remember?).

- The new account needs deliveries three times a week, tying up the trucks, using drivers' time, and consuming more gas to deliver those low margin goods.

- Meanwhile, existing clients are not getting the attention they need and deserve.

- And to top it off, the new account requires some materials the PVF house doesn't stock — thus requiring new sourcing and more inventory to be carried in the warehouse.

Talk about winning the battle, (new accounts and increased sales) and losing the war, (expenses are up and profits are nowhere to be seen).

So what's the solution?

GOLD MINING

Exploit that gold mine right under your nose. Sell more to your existing customers.

You may say, “That's impossible — we already sell as much as we can to our customers.” Or you may even think this is stupid — “Even if we could sell more, we would be in the same position — we will make more deliveries, incur more expense, and still get thinner and thinner margins.”

Here's where conventional thinking is just plain wrong. Add service into the mix and you sell more to your existing customers, and increase your profits to boot. The simple, ugly truth is PVF wholesalers deal in commodity items and commodity items sell exclusively on price. Your customers don't come to you for your valves; they can get that exact same valve from someone else — they buy from you because of service. And they will buy more if you offer them more. The better your service, the easier you can justify high margins, and the less likely the customer will go elsewhere for that commodity valve.

You need to know what kinds of services your customers need, expect and are willing to pay for. The more you know about your customers, the more services you can offer. Wholesalers think they know their customers. We are here to tell you, they don't.

We've researched customers for some

of our PVF distribution clients and saw amazing cases of missed opportunities and increased risk. In one case, the customer's revenues had more than doubled over the past three years, yet their orders with this supply house had remained flat. In another case, we learned the customer was going into bankruptcy proceedings, yet the supply house was still sending them rush deliveries daily, and extending credit past 90 days.

CUSTOMER CONSULTANTS

Getting close to your customers is the best way to shape the commodity price wars. The best way we've seen to do this is to turn your salespeople into customer consultants. Customer consultants visit customers' construction sites regularly; they walk the plant floor to see what's going on. They know what projects are coming up in the customer's work schedule. They get the company newsletter. They visit the loading docks; they know which truck to send; they know how best to package the material for the quickest unloading and use.

Customer consultants also get very close to their customers' business. For food processing, the consultants are up to speed on FDA regulations concerning required pipe coatings or trace element restrictions. For utilities, they learn about heat degradation of certain gaskets. They bring vendor experts along for plant visits. Soon the consultants will be the company's advisor concerning all their PVF purchases. Back at the supply house, these consultants can now advise purchasing on what type of coated pipe to stock and the warehouse on stocking levels. Your customer consultants are your company's primary interface with your customers, the market, and your vendors.

Now you're looking at your sales force, thinking — “That's not what my guys do!

How am I going to turn this around?"

Here are five steps toward turning your PVF Company into a true service organization and not merely a seller of commodity goods.

(1) Do a customer analysis. Rank your customers, by revenue, by profit, and by days to pay. This will give you a short list of those companies that bring in the bulk of your revenue, make you the most profit, and are financially healthy. These customers are your gold mine. Make them happy and they will buy more from you.

(2) Survey these top customers. Find out what gives them fits and what they would like. You may be surprised to learn what they want vis-à-vis billing, PVF packaging, and delivery schedules. Errors in quotations, shipping, and invoicing cost your customers a bundle. Running an error-free PVF supply operation will inspire untold customer loyalty and in turn will make you plenty.

(3) Make sure all top accounts are covered by your customer consultants. Assign one or more to each consultant and make it their job to learn everything about these customers.

(4) Spend money on training these former sales guys. They need to develop new skills. This is a different kind of selling. They are no longer selling a valve, a fitting, or lengths of pipe; now they are selling expertise and overall solutions.

(5) Develop a bonus system that rewards your consultants for increasing high margin sales. Good incentives always get people focused to do the right thing.

(6) Later, after steps 1-5 are well in place, the Supply House can start offering the next level of services, services for which customers will pay handsomely. For example: manage the customer inventory, develop schedules and supply PVF material for routine maintenance, offer off-shore sourcing, and become the materials expert for customers, to name a few.

These steps are not a quick fix, but a slow and effective process. You can't just give a good rah-rah speech about the importance of being customer consultants, sit back and

expect to see sales jump. You can start the process right now. You have to. If not, you will continue to battle in the commodity wars, trying to keep clients on the basis of price.

The PVF distributor that becomes a true service business still needs to deliver the very best service, at the lowest possible cost, to be profitable. We will discuss how to apply lean manufacturing and lean thinking to PVF supply houses in the next article. <<

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