

Is “Checking it Twice” Costing You Money?

A System-Driven Concept Can Help You Eliminate the Redundancies & Slim Your Bottom Line

By Glen Juliano, President
TRX Integration, Inc.
glen.juliano@trxi.com

By definition, doing the same thing over and over and expecting different results is insanity. Yet many organizations do it on a daily basis, justifying it as a way of controlling costs. Does this sound familiar? A customer order is checked for accuracy, margin, and credit by sales management before entering it into the system. The purchasing agent reviews the order for accuracy, margin, and credit before placing a PO. The shipping department checks for credit clearance before shipping and then the invoice is reviewed for accuracy and margin before sending it to the customer. Finally, the vendor check will not get paid until the signer sees an invoice already sent to a customer or backup for a stock purchase. If two or more of these sound familiar, duplication of effort is costing you money.

Even so, some argue that too many controls still costs less than no controls at all. In fact, I know of dozens of companies following two or more of the procedures above right now. The real question is “how can dealerships keep controlled results and cut costs at the same time?” The answer is in the concept of a system-driven organization, a process that helps a company do things right the first time while delivering

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How to Tell if You are Not a System-Driven Organization

If your organization catches mistakes only after shipping and invoicing, you are probably not a system-driven organization, according to Juliano. Also, if you are constantly reacting to negative customer feedback from incorrect orders, pricing or product, as opposed to proactively seeking ways to serve them better, you are probably not a system-driven organization. Finally, if it takes longer than 30 days to collect non-contract receivables, you are not (but should be) a system-driven organization.

Is "Checking it Twice" continued

unparalleled customer service. But before I get into the specifics, let's explore how intended efficiencies in the system get derailed.

Clearly, taking care of the customer by adding value to their restaurant or chain is a key ingredient to your success. Transparent to any niche, the focus is always on serving the customer, even if it means throwing in a few value-adds at no charge (which explains how growing dealerships often lose sight of the rising costs of delivering their niche value). Ultimately, this leads to eroding margins, tighter cash flow, leveraging the line of credit and paying higher interest charges. It also answers the question "How did we make less money with higher sales and similar margins?"

Operationally, what worked at \$3 million in annual sales starts breaking down at the \$6-million mark and is flat out unsustainable at \$10 million. There are similar plateau effects at \$20 million,

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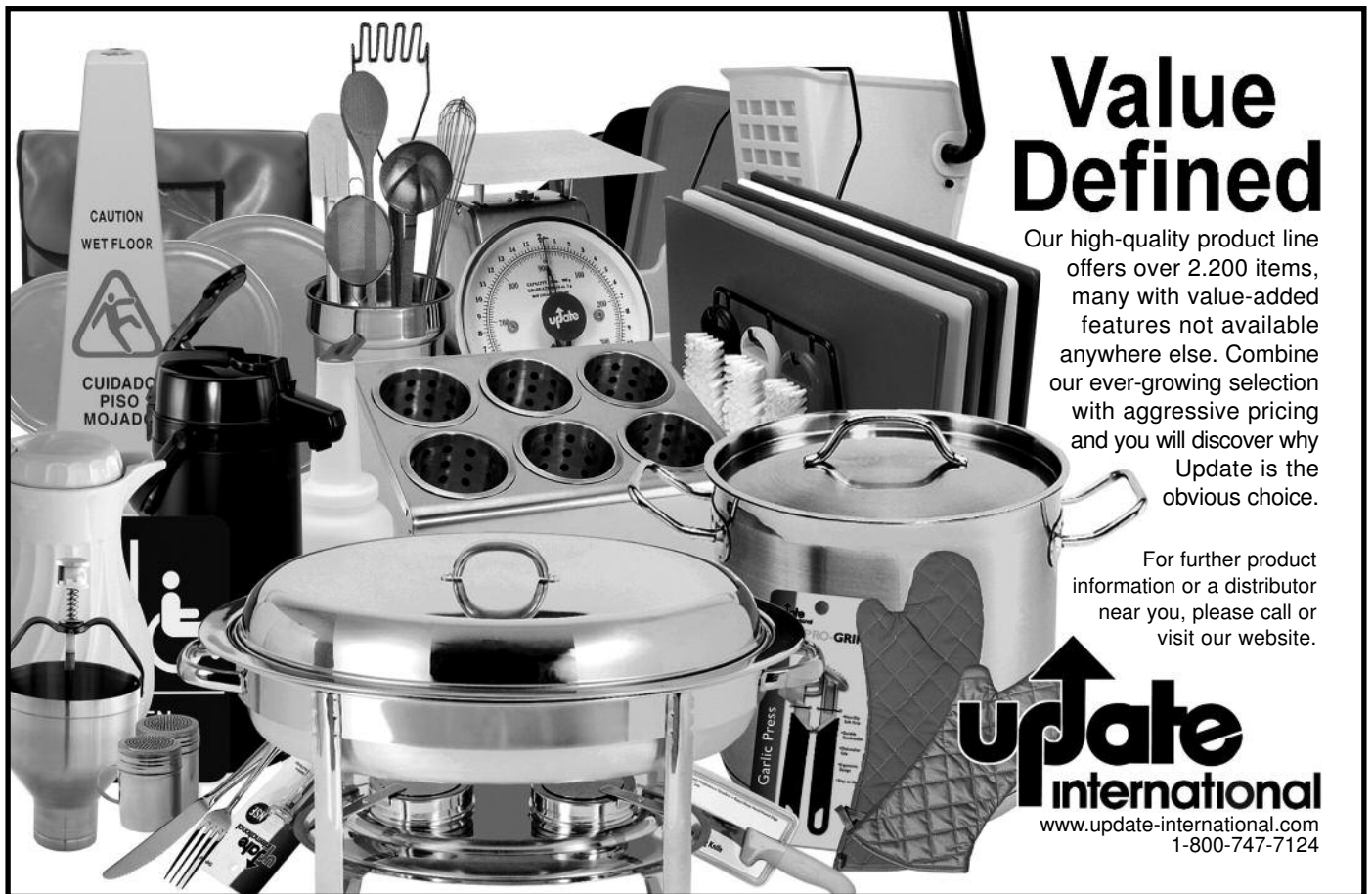
\$50 million and \$100 million. At any level, applying the same principals of a system-driven organization can help your bottom line. So, now is good time for the definition. A system-driven organization is a management plan that divides the business into functional areas such as Sales, Purchasing, Inventory Control, Contract and Design and Service. Then, each of these areas is broken down into subsections, where structure, ownership and management control points are laid out. Okay, it sounds like an organizational chart, but it's actually more of a 3-D organizational chart on steroids when you factor in control points, a series of filters—either people or software-driven—that ensure data integrity of critical path data, such as sales orders, purchase orders, checks, etc. Note the word "ensure," which eliminates the need for backtracking once

data passes through a control point.

The Burkett Experiment: A Lesson in Trust & Controls

When you start by eliminating duplicate processes through unbreakable control points, magic starts to happen. Higher volume with no additional staff, improved cash flow through better management of special orders and improved customer service through more accurate orders all add to the bottom line by reducing hidden costs. As much as I would like to say this is all about software, it's not. Sure it helps the process if your software is designed with this in mind, but it's really a management philosophy with a bent toward leveraging people and technology to maximize control points.

Take Burkett Restaurant Equipment in Toledo, Ohio, for example. A strong pro-



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ponent of the system-driven philosophy, it has experienced 400 percent growth over five years in what is effectively a suburb of Detroit. Considering the economy the last five years, most owners had a better shot at winning the Powerball lottery than 400 percent growth. How did they sustain this extraordinary growth without imploding or breaking apart from the G-Forces? The answer is in young, talented management that looked to technology to fill the gaps instead of fallible human control points. Everyone had to trust the system and execute their jobs flawlessly without worrying that the last functional area fell short on the job (much like the assembly lines in Detroit).

Prior to embracing the concept, sales orders could be entered, purchased and shipped without credit checks or money down. This violated a major control point at the start of the process and happened more frequently with every exponential growth year. Most issues were caught just prior to shipping, but if the special order product was purchased and cash flow was diminished, it was too late to stop the margin erosion.

Now, if a sales order is entered without proper credit or down payment, there's a technological barrier in place to prevent it from being processed and pushed down the line for purchasing, shipping and invoicing. It's also important to note that the only way to remove the barrier is with a clearance from management. The end result has been efficiencies down the entire line. Instead of checking credit worthiness before a special order, purchasing can now concentrate on consolidating orders and maximizing free freight and discounts; and shipping can follow the paperwork, in lieu of its own credit backtracking. If a pick ticket prints, it ships. Finally, invoicing is now a clerical function and senior staffers no longer have to scour every invoice. (If they need to get involved, it's at the beginning of the process when something can be done about it.)

This is one of the clearest examples of how a correctly positioned control point can free up management's time and make "exception handling" truly "exceptions." It's all about doing more with less and giving management the opportunity to actually manage, not hiring another expert who can draft, sell, purchase, install and manage cash flow.

Embracing the Concept

How do you transform your company into a system-driven organization? The first step is an impartial evaluation of the current situation in your company. If possible, use a third-party with no skin in the game to assess your baseline. Then, decide how you want the customer to perceive your organization and work backwards from there. You would be amazed how helpful your current employees can be with examples of what can be done in the process (before it gets to them) to save time, money and look good for the customer. You had better have some thick skin, though, because what doesn't get blamed on the salespeople defaults to management/ownership.

It's much like reverse engineering your own business as long as the interviewer is not a direct or indirect supervisor

of the staff (not including executive management). Timing can vary greatly from company to company, plan on two to three months to frame the big picture and a never-ending quest for better detailed results from there.

If you want to attempt the process without a third-party, look for the low-hanging fruit to get fast results and management buy-in. Start by mapping out the functional areas and the respective subsection process flows as you or the management team sees them. For example, the Sales functional area can be broken down into Floor Sales, Distribution Sales, Contract Sales and Sales Support. Even if you need one person in more than one box, it is best to divide the area accordingly.

Next, conduct interviews of non-management staff in each of the areas to compare where they see things. In the interviews, try asking the staff what someone (not in their department) could do to make their job easier. You might be shocked at what you find out.

Once the map is complete, look for the top five control points that impact cross-functional areas like the Burkett example, which simplified sales, accounting, purchasing and shipping. Next, decide how to implement the control point through people, technology or a combination of both. Repeat this process until no more fruit can be found and then plan on another review in six to 12 months. Starting with the biggest, easiest to implement control point will garner faster results and

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President's Message continued

to rent them from Danny! They are included in your FEDA membership. I'm going to leave it at that. This is incoming FEDA President Brad Wasserstrom's issue to deal with now. I just thought I'd leave you with something to mull over.

I want to thank everyone for allowing me to serve you again as FEDA President over the last 10 months. It has been a huge honor and, frankly with Ray and his attentive staff, it has been a true pleasure.

I'd also like to thank the FEDA board and excom for volunteering their time, energy and creative ideas. To the dealers and manufacturers who have emailed me or called me (or called me out) about my articles and industry issues, thank you so much for your direction and insight.

In addition, for supporting our efforts with Patti Morrow, the founder and executive director of the Interior Designer Protection Council (IDPC), I would like to say THANKS to the other industry trade associations (NAFEM, MAFSI, FCSI) and their leadership, as well as all of the major buying groups (PRIDE, NexGen, CPG, IFED, ABC, SEFA, NAFED). Your financial support is crucial in helping Patti speak out against the practices of the American Society of Interior Design (ASID).

Now I hand it over to you Brad, knowing that our industry is in good hands with your leadership. Thank you all again, it has been my pleasure to serve you. Hopefully the economy will continue to improve, as will sales, and we will hear a lot more laughter in our future. Like Danny used to say, "Everything is funny when you're makin' money..." I wish you all the BEST! ☐

Industry Insights continued

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Is "Checking it Twice" continued

embolden your management team to find even more.

Always remember that two steps forward and one step back is still forward progress. Keeping the status quo in this dynamic market will be harmful or fatal if swallowed. Interest rates are at an all-time low right now, but how will your profitability look when they hit 5 percent, 10 percent, 15 percent and beyond. If you plan to pass the company to the kids, or sell it before interest rates go up, keep in mind you still have the holidays with the kids or the devaluation hit you take for carrying debt during due diligence. No matter what your current situation, size or unique focus, making your enterprise a system-driven organization will only strengthen the company's profitability, value and long-term viability. ☐