

EBOOK

# Data-driven inventory optimization

Track metrics to manage your inventory

Phocas.

DIFOT

92%





# Introduction

Distribution is an important component of the global economy. Moving goods across states or from one country to another is a complex and vital part of the supply chain.

Like most industries, distributors are facing digital disruption and ongoing financial pressure. These include manufacturers wanting better efficiencies and retailers needing increased responsiveness, both of which continue to affect margins.

You may be experiencing distributor-bypass as some retailers are deciding to work directly with manufacturers. Competition is also getting tougher as most sectors are saturated, and there is the ongoing threat of online retail giant Amazon and smaller online players entering the wholesale distribution market.



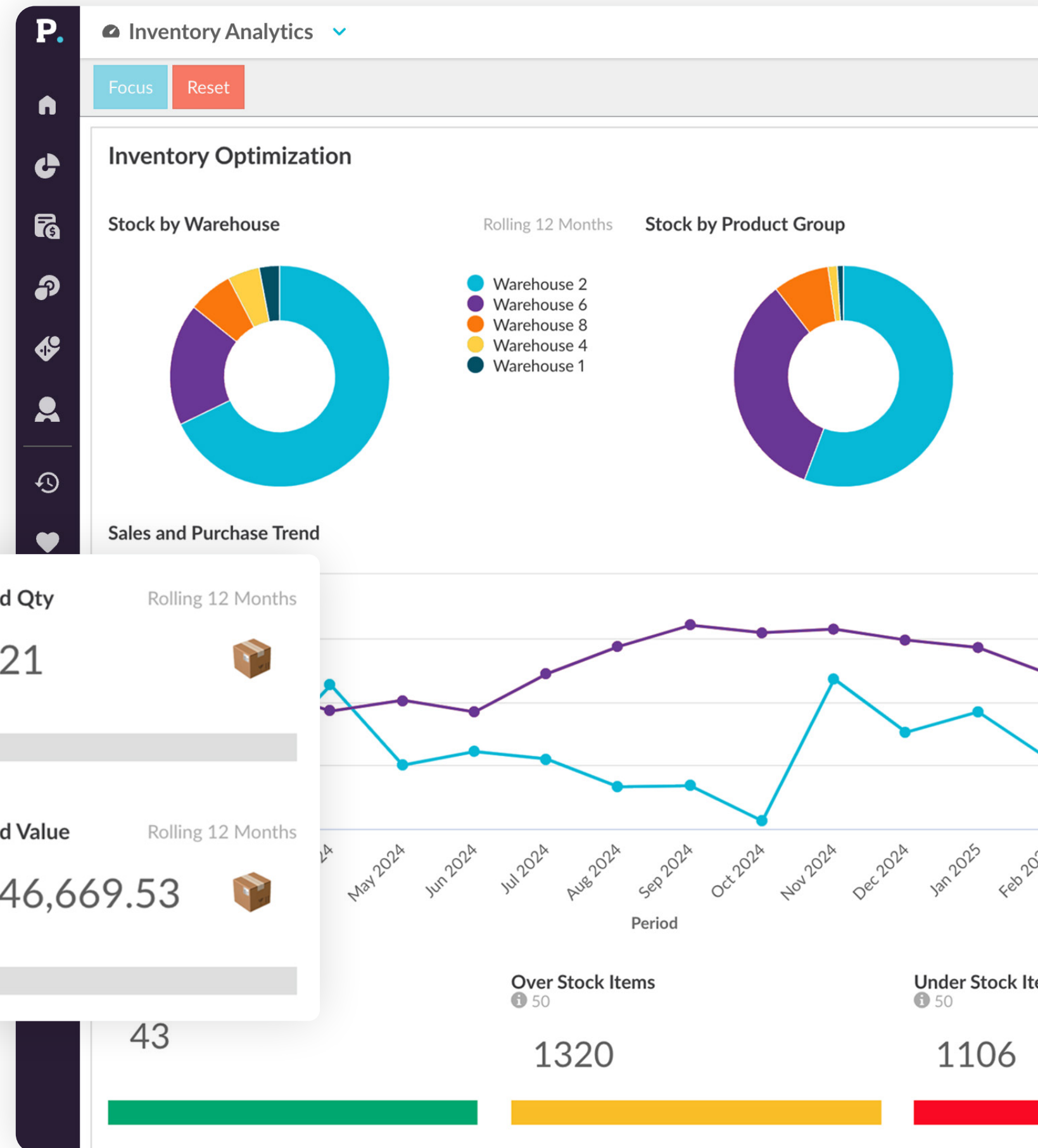
**For wholesale distributors to compete and grow in the future, they need a precise understanding of business operations, from the backend manufacturing to the front-end customer-facing sales and marketing efforts.**

Volumes of information are created every business day from departments and systems across your company.

This data provides the evidence of activities and proof of performance that help business people understand what is working and what can improve. The data also provides validation that decision makers need to move forward or pull back.

To access this data in a consolidated form, you need a data analytics solution that integrates with your ERP and other systems. The solution needs to be customizable to fit your business and the specific needs of different departments.

**As technologies continue to emerge and are enhanced by artificial intelligence, the distributors who take advantage of their data will gain competitive advantage over those who don't.**





# Building a data-driven culture

Phocas has considerable experience working with distribution companies.

We are familiar with the industry preferred ERPs and the importance of a compatible, intuitive data analytics solution.

Distributors share common goals, including maximizing orders, refining margins, meeting meaningful and trackable SLAs and KPIs, and providing superior customer service.



[Click](#) to hear how accessible, user-friendly BI enables a data-driven culture (1:52 mins)

**While most of these goals are tactical, businesses need to be more strategic and data-driven to achieve them.**

We have a three-step process that helps to ensure that our customers can build a strong data-driven business strategy. Phocas is actively engaged in steps one and two. The last part comes down to the culture of the organization and a team's willingness to adapt.

- 1 Identify all the relevant data sources
- 2 Measure, predict and optimize the outcomes from your data
- 3 Adapt your business to do what the data analysis recommends



Data-driven decisions are important, and having the data so easily accessible is the only way to get people to start to change their culture towards that.”

– Robert Wright, Senior Application Developer & Analyst, Behler-Young



## STEP ONE

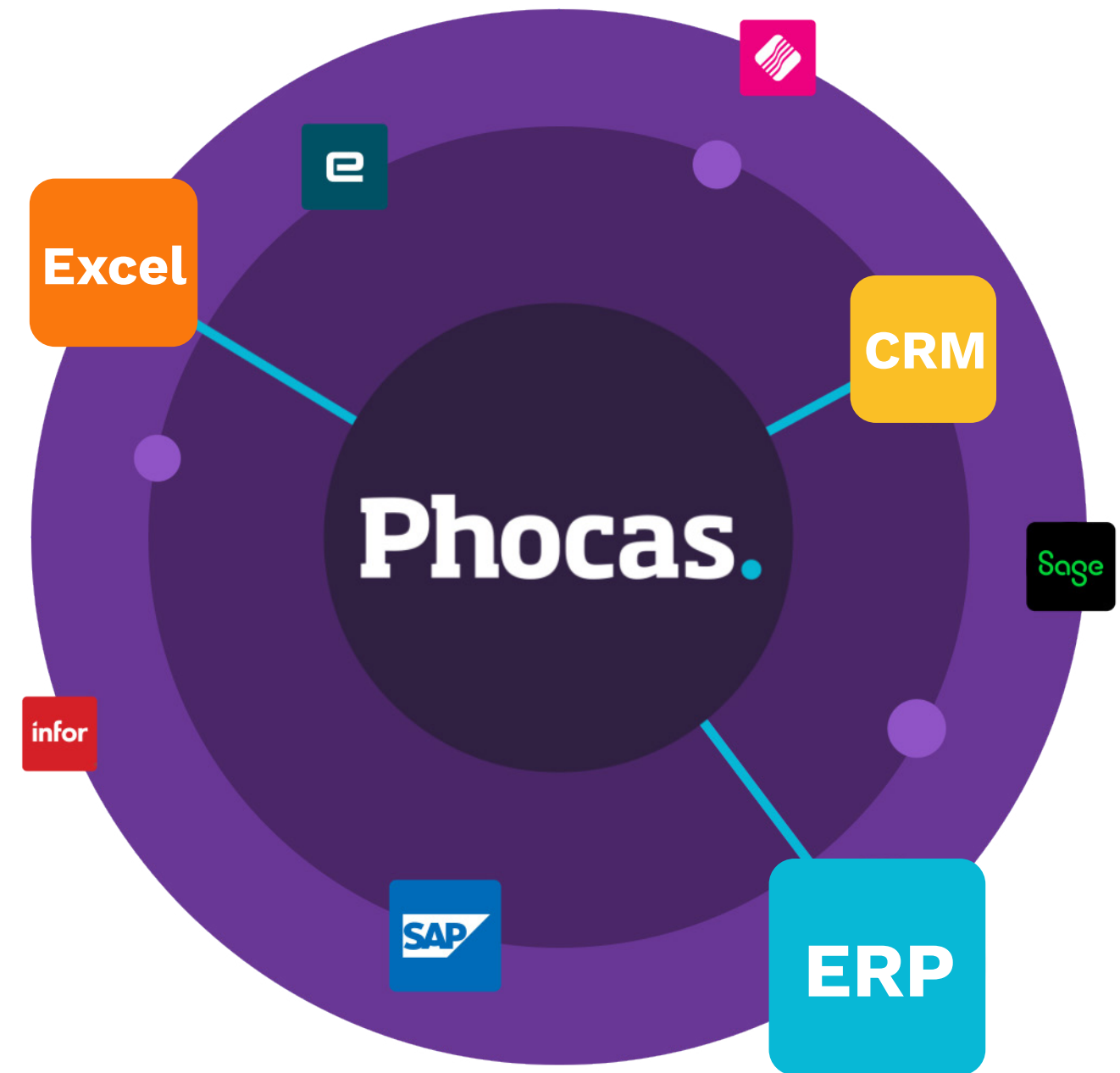
# Identify all the relevant data sources

Distribution professionals must identify the data they want to analyze.

All the data might come from your ERP or there might be other sources you want to include such as CRM or purchasing data.

**We combine and manage all of this data into a single source of truth so you have a 360 degree view of your business.**

Once the data sources are confirmed, a standard integration process will be mapped out using APIs into your ERP to manage the ingress and ongoing update of data into the Analytics platform.



ORACLE  
NetSuite

EPICOR



myob

Sage





## STEP TWO

# Measure, predict and optimize the outcomes from your data

For many using data analytics, this means having a dedicated IT team and data analyst building sophisticated models and running reports.

To make data accessible to all in your business, we recommend seeking out a software vendor that offers you industry-matched data analytics that is intuitive for everyone to use. This includes dashboards, scorecards and pre-built alerts and relevant formulas for a distribution business.

**During integration, it's imperative that your vendor collaborate with sales representatives, CFOs and purchasing managers.**

With this knowledge, you can set-up metrics that are aligned with business goals, so everyone can use the insights every day and share outcomes with your customers.



[Click](#) to hear how Phocas delivers real-time insights at Headwater (4:08 mins)



Having dashboards and a BI tool is critical. You can't run a big business without knowing what's going on from day to day. It's a core necessity, you can't do business without it."

– Dave Kersten, Systems Integration Manager, Headwater Companies



### STEP THREE

## Management buy-in is critical

To build a data-driven culture, your management must possess the will to transform your business so that the data insights actually yield better decisions.

The data analysis may contradict your long-term business practice, so you need to know to adapt your business in line with the data insights and be prepared to lead by example and change the way you operate.



[Click](#) to hear about the benefits of empowering everyone with real time data (4:55 mins)

You need to trust the process and the data, which means managers need transparent and convenient ways to regularly access the data.

**Dashboards can help you quickly find the data you need to determine the best course of action.**

The insights mined from your data will become the common language of your business and will drive conversations between internal teams.

Using data to make strategic decisions ensures businesses can act quickly, identify trends, and optimize performance, rather than relying on delayed or incomplete insights.



The biggest difference with Phocas is the speed at which we get information so we can make fast decisions. And people joining our business can get up and running straight away.”

– Mark Law, IT Director, Hayley Group



## Case study

# Inventory management and an effective sourcing strategy with accurate data

Hayley Group, a UK industrial components distributor and part of global Descours & Cabaud, uses Phocas Analytics, CRM and Rebates across its operations to create an effective data-driven culture.

Phocas integrates with Infor SX.e ERP to provide actionable insights across Hayley Group's complex data sets, giving everyone, including customers, instant access to vital business metrics and trends.

Regarding inventory management, Phocas assists in analyzing stock that is either not moving or moving slowly. This helps them to work with suppliers to order appropriate items and plan deliveries accordingly. Clear data also supports its sourcing strategy; allowing Hayley to be more informed during negotiations and strengthening supplier relationships.

Purchasing Director, Will Fletcher says Phocas allows him to dive deep into sales and purchasing trends, spot growth areas, and find opportunities to shift non-core spending to preferred suppliers.

Automating the rebate management process with Phocas Rebates has given the team real-time visibility into rebate accruals and eligibility criteria.



We could get that information out of our ERP system, but it would take a lot longer. And it would mean running lots of separate reports that would take time to do and be cumbersome. What Phocas gives us is all that information a lot more quickly and easily.”

– Will Fletcher, Purchasing Director, Hayley Group

[Read full case study](#)





# Stay proactive

Time is an exceptionally useful lens through which to view your inventory. For example, most products you might currently consider dead stock didn't start out that way.

Maybe the product was a fast mover and then it was replaced with a new version by the vendor. Perhaps your customers' preferences changed, or a competitive product pushed it out of the market.

You probably agree that if you knew you had to liquidate something, or it would eventually have to be written off, you would want to know as soon as it became slow moving. With that knowledge, you could have initiated a promotion to move any remaining stock and make the most profit while clearing the inventory.

The faster you know about potential problems or can identify trends, the better position you will be in and the sooner you can address and resolve the issues before they begin to significantly impact your bottom line.

Centralized data analytics serves as a single source of truth that converts raw information into actionable intelligence. It makes time your ally, placing at your fingertips the answers to your stock and inventory questions so you can make more effective, timely data-driven decisions.

**Aggregating and analyzing your data can have a significant impact on your ability to accurately track your stock and inventory.**

Proactively identifying trends and patterns such as customer purchasing behavior becomes easier, helping your business remain responsive, profitable and ready for growth.



People are always looking to see how fast we can deliver and making sure we are delivering, quickly. So it's all about turnover for us and speed, and Phocas helps me make sure we deliver."

– Chris Douglas, National Channel Manager, [uvex](#)

**uvex**

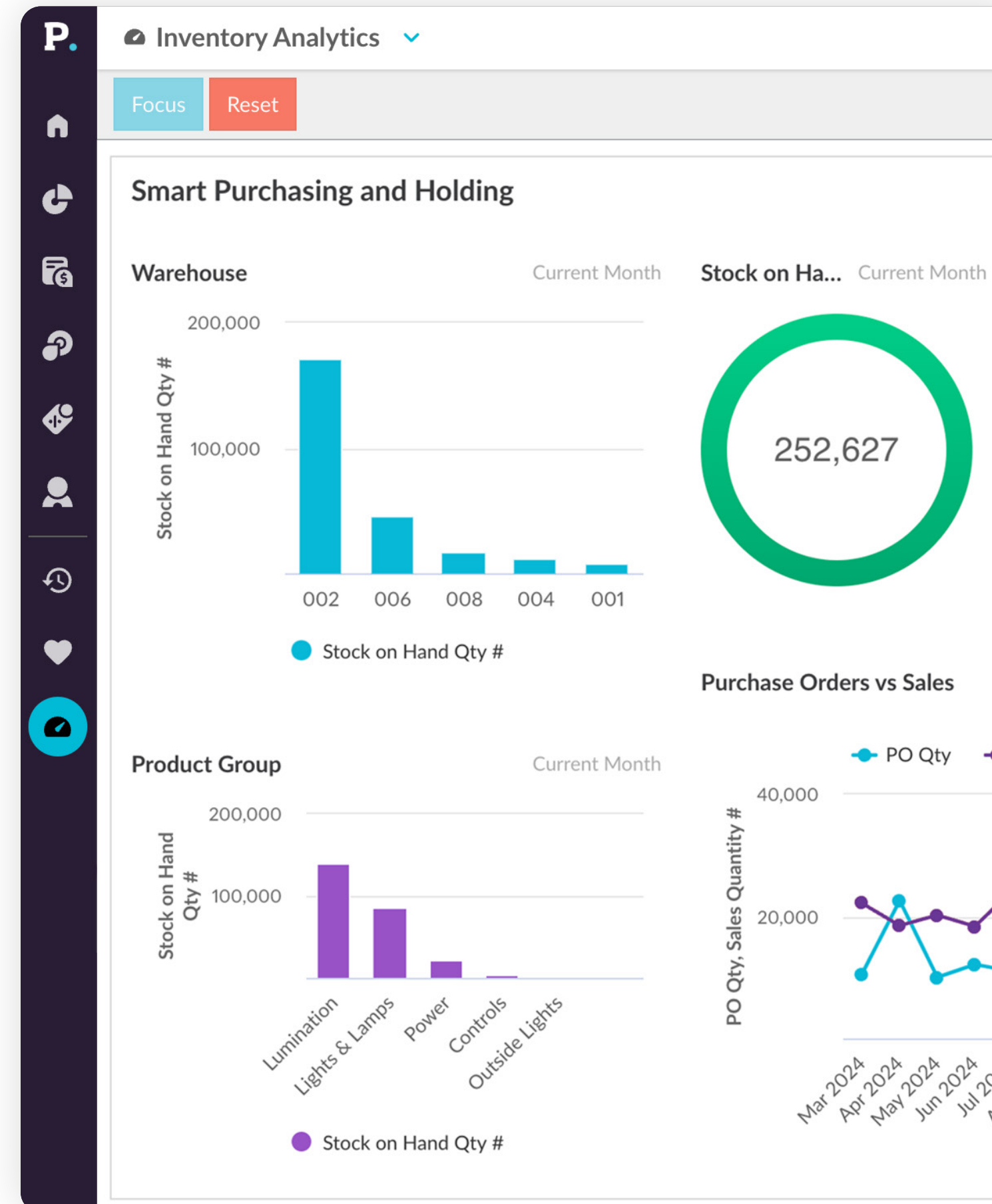
How would your purchasing and procurement change if you could quickly and accurately review the following:

- Inventory levels across all your branches or distribution centers
- Monthly supply based on average monthly sales
- Stock on order and stock in transit
- Products your key customers are or aren't buying
- Number of days your inventory has remained on the shelf
- Number of deliveries you've made in full on time in the last week, month or quarter
- Average inventory investment compared to net profit

Data analytics makes it easy to track a variety of metrics and create and share customized reports.

Dashboards display charts, graphs and tables, helping eliminate reporting and analysis challenges within your business, while allowing you to dig deeper into your transactional data.

**When everyone across your business is reviewing the same data in a format that they understand, your teams can confidently make important decisions to keep your business moving forward.**





# Reporting: New ways to review key metrics

Competition is fierce for wholesale distributors so visibility across every aspect of your business is imperative to drive profitability.

Data analytics solutions provide quality reporting on a variety of metrics.

We outline how three important distribution metrics are managed within Phocas and the different ways a user can assess margins, measure stock cover and classify customer profitability.

- ✓ Margin enrichment
- ✓ Stock coverage
- ✓ Customer profitability

Under Stock Items  
**1,106**

Weeks Cover  
**43**

Sales

March  
**\$273,159**

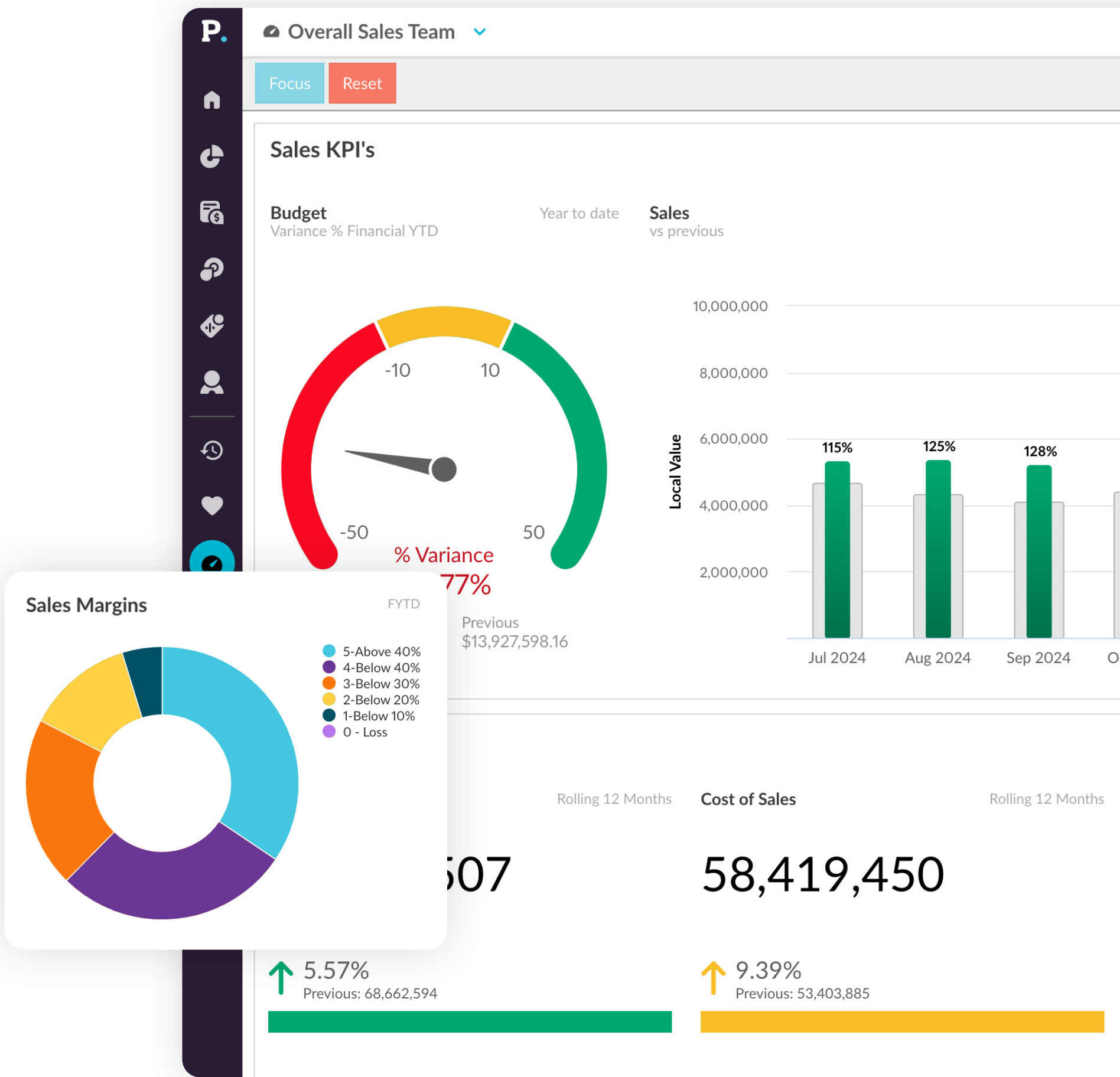
## Metric 1

# Margin enrichment

Tracking profit margins is a full-time activity in distribution.

Out-of-date reporting systems with little to no visibility beyond sales data can result in your business spending more money to sell products than they cost. Even if revenues are up, failing to closely monitor individual sales margins can lead to strategies that may not benefit your business. Reasons for margin erosion are many and diverse, so it's important to track if and when product pricing changes, whether at the distribution center or the point of sale.

In Phocas, you can “drill down” into granular layers of your data, allowing your salespeople to view margin by customer and by product, product class or product category. This information helps guide optimal sales strategies and influence product mix decisions.





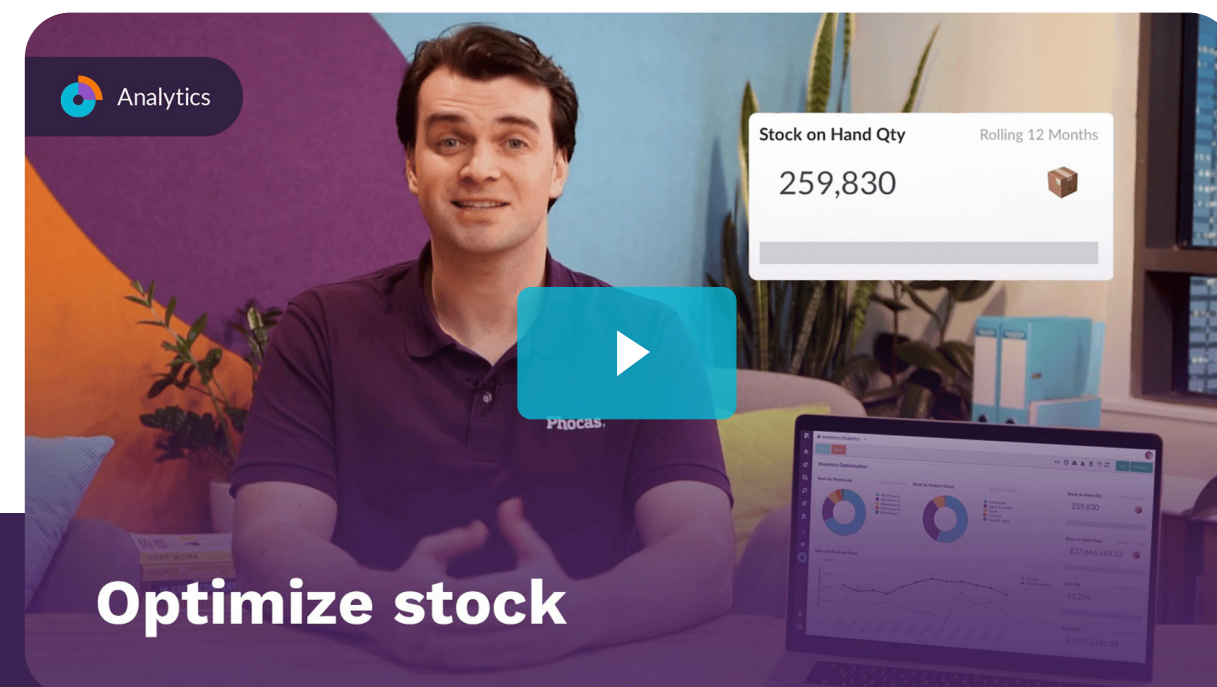
## Metric 2

# Stock coverage

Managing inventory levels involves data and experience.

So let's review the data-driven element by looking at a basic equation that helps us calculate stock coverage and then click on the video and see how Phocas calculates this for every product daily.

It may vary from company to company; however, the process will look something like this:



**STEP ONE:** Calculate the true stock available (net stock levels)

$$\begin{aligned} &(\text{Stock on hand} + \text{Stock on order} + \text{Stock in transit}) - \\ &(\text{Consignment stock} + \text{Back orders}) = \text{Net stock} \end{aligned}$$

**STEP TWO:** Calculate your average weekly run rate using sales history

$$\begin{aligned} &\text{Total unit sales for 12 months} / 52 \text{ weeks} = \\ &\text{Average weekly unit sales} \end{aligned}$$

**STEP THREE:** Calculate your stock coverage (in weeks)

$$\begin{aligned} &\text{Net stock} / \text{Average weekly unit sales} = \\ &\text{Stock coverage in weeks} \end{aligned}$$

You can calculate your stock coverage in weeks (or months), and then compare this to your lead times. For example, if your stock coverage is four weeks and it takes 12 weeks for stock to be delivered, there is a good chance you're going to be out-of-stock for eight weeks if unit sales continue on trend for that SKU.

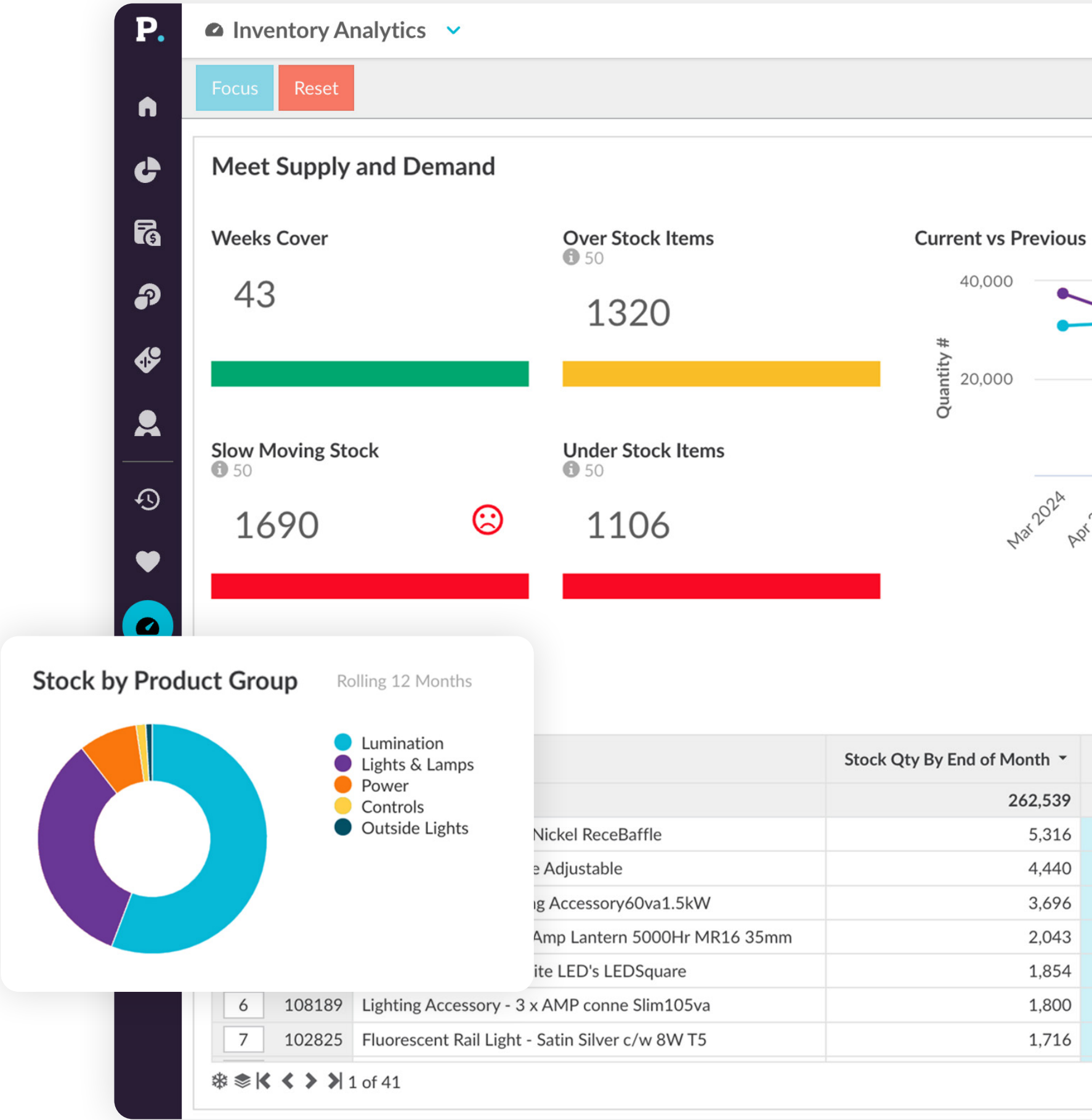
[Click](#) to watch this Optimize stock video (1:39 mins) for more detail.

No doubt, you perform these calculations and take into consideration other factors as you apply experience to the process.

This means taking into consideration all the other things going on in the business, i.e. new product launches or other products superseding obsolete stock.

**Your Phocas data will provide you a Stock Coverage report that is always up-to-date and easy to access. It is also flexible, meaning you can adapt it to look at the product group level or isolate it to a specific warehouse location.**

There will be no more “out of stock” situations or getting caught with large “dead stock” quantities. You can also identify “slow-moving” stock before it becomes a problem.



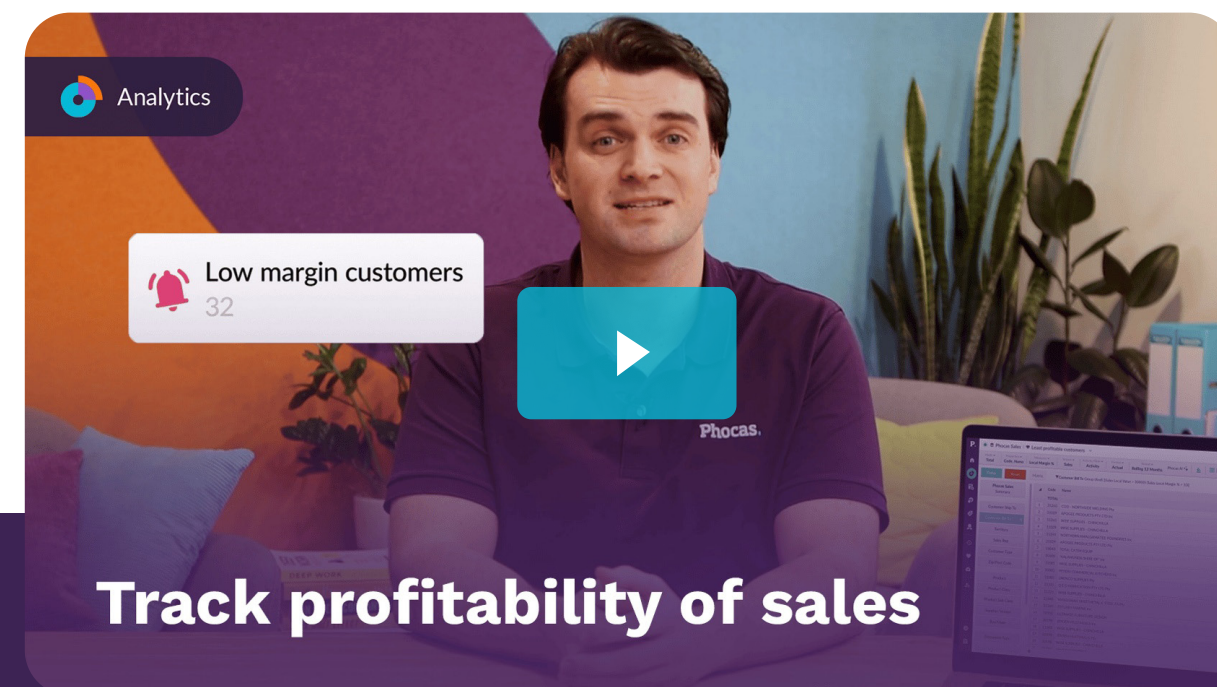


## Metric 3

# Customer profitability

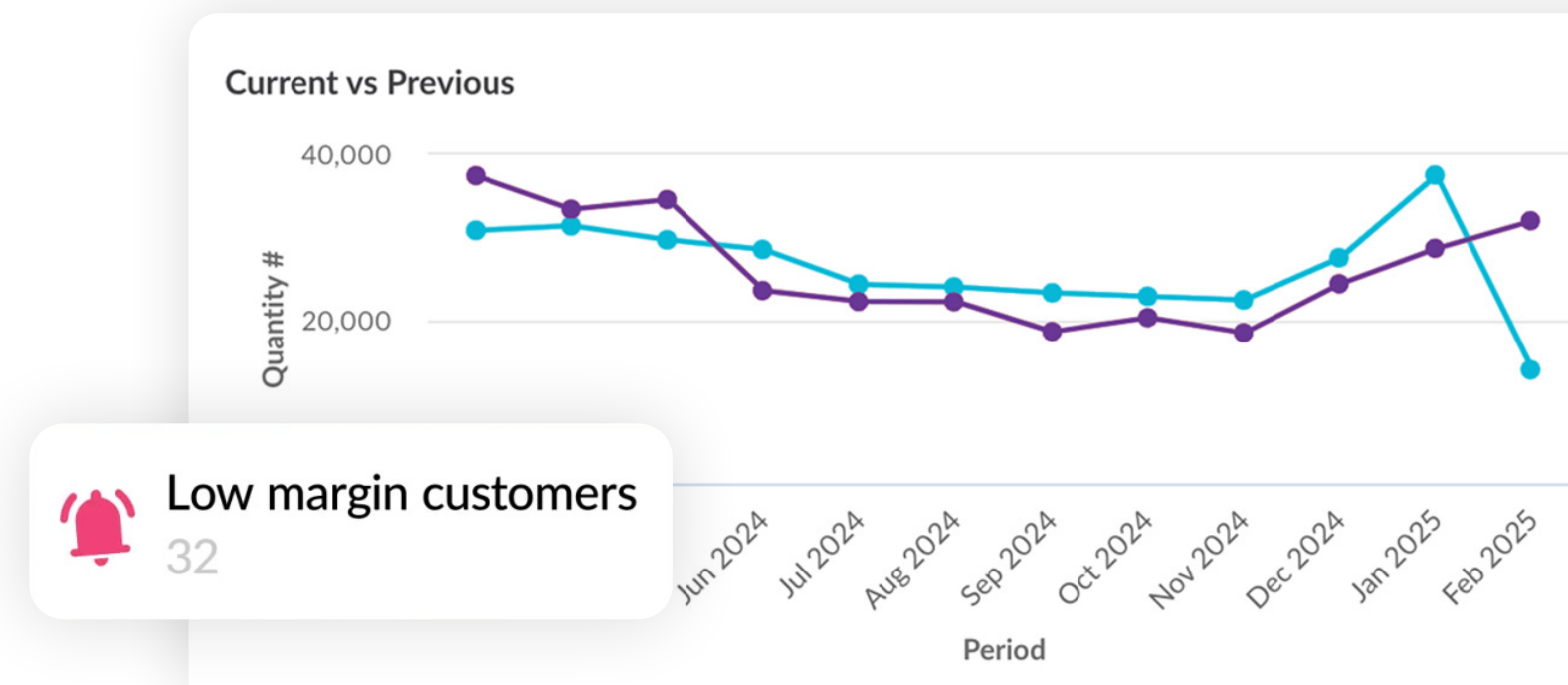
A key benefit of data analytics is the ability to understand the needs of your customers.

Low-profit customers can come at a high cost, so it's critical to have a comprehensive and accurate understanding of your customers to minimize at risk relationships and keep profitability strong.



A customer profitability analysis is an evaluation of your customers' buying patterns. Using your customer data, you can apply measurements to key metrics such as customer sales volume, gross margins, loyalty, and cost to serve.

Phocas has evaluated the distribution industry and pinpointed specific elements that affect profitability such as sales volume and cost-to-serve. Phocas has also developed a means to weigh these variables so companies can rank customers by their level of profitability.



[Click](#) to watch this *Track profitability of sales* video (1:22 mins) for more detail.

# Measuring cost-to-serve

A high cost-to-serve can wipe out the gross margin if the customer requires significant service and support, easily tipping the balance from profit to loss.

Here are the different elements of cost to serve:

1

## Order sizes and frequency of orders

This metric impacts your inventory and handling costs. Frequent small orders incur higher sales administration costs than less frequent and larger orders. Order behavior that varies greatly also impacts your ability to accurately forecast your inventory needs.

2

## Accounts receivable

The cost to extend credit to a customer is determined by your own capital sources. A customer's payment history is key to extending credit.

3

## The rate of returns and exchanges

Customers that frequently return or exchange items cost more due to additional handling and restocking expenses.

4

## Sales administration

This is the cost of sales and service calls. Customers that require multiple sales visits, or place multiple orders, cost more than customers that place orders in a single batch.

5

## Shipping or delivery

Customers that place multiple orders or require same-day delivery increase your delivery costs.

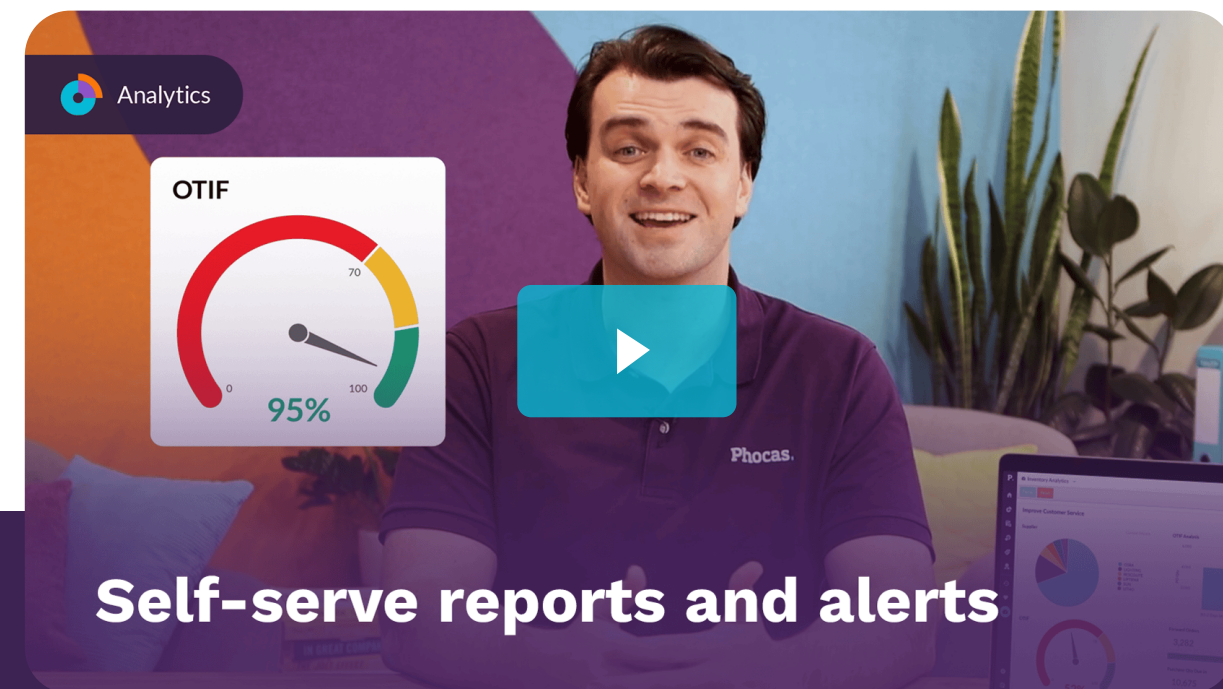


# Self-service data empowers everyone to do more

Self-service BI provides business users with the tools to create interactive dashboards and reports on their own.

It's a bit like online banking — everyone can control their own finances but has automated tools guiding them, removing the bottlenecks of traditional BI platforms.

In Phocas, you can also set up alerts to receive an email notification when specific events occur, such as when the stock of certain SKUs reaches a threshold, indicating it's time to order more.



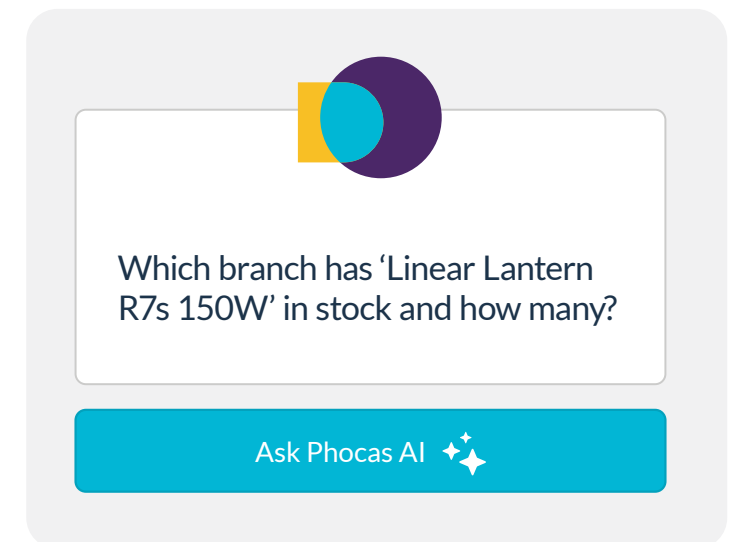
When self-service BI tools are used and available, there is less of a demand on the IT and finance department to run reports. This ultimately speeds up decision-making.

Most people lack the technical skills to work with complex systems so a user-friendly interface with automated data sets helps to get more people embracing the software.

**Phocas Analytics integrates AI into its BI platform, enabling users to quickly get answers and insights by asking questions about their inventory or purchasing data.**



The [Phocas AI](#) feature is especially useful for new or occasional users, allowing them to learn faster by seeing how results are obtained.



[Click](#) to watch this Self-serve report and alerts video (2:10 mins) for more detail.

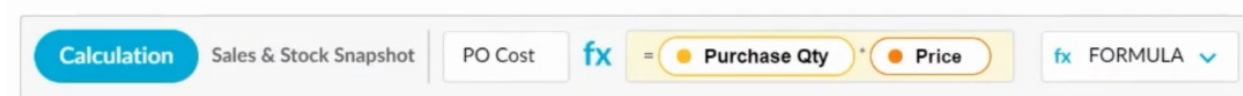
# Smart demand planning

As well as analyzing and measuring your inventory in Phocas, you can also use your purchasing, stock and sales database to carry out demand planning.

The fast and accurate demand planning process begins with setting up an operational budget that draws on this database.

This budget calculates key inventory measures like opening stock, sales, purchases, and closing stock. Your sales forecast and ongoing sales data are integrated to refine demand forecasts each month. This is achieved by organizing them according to criteria such as supplier, inventory class, or SKU.

Additional steps in the demand planning process include incorporating a supplier price list, converting input lines into calculations, and adding extra measures such as reorder quantity.



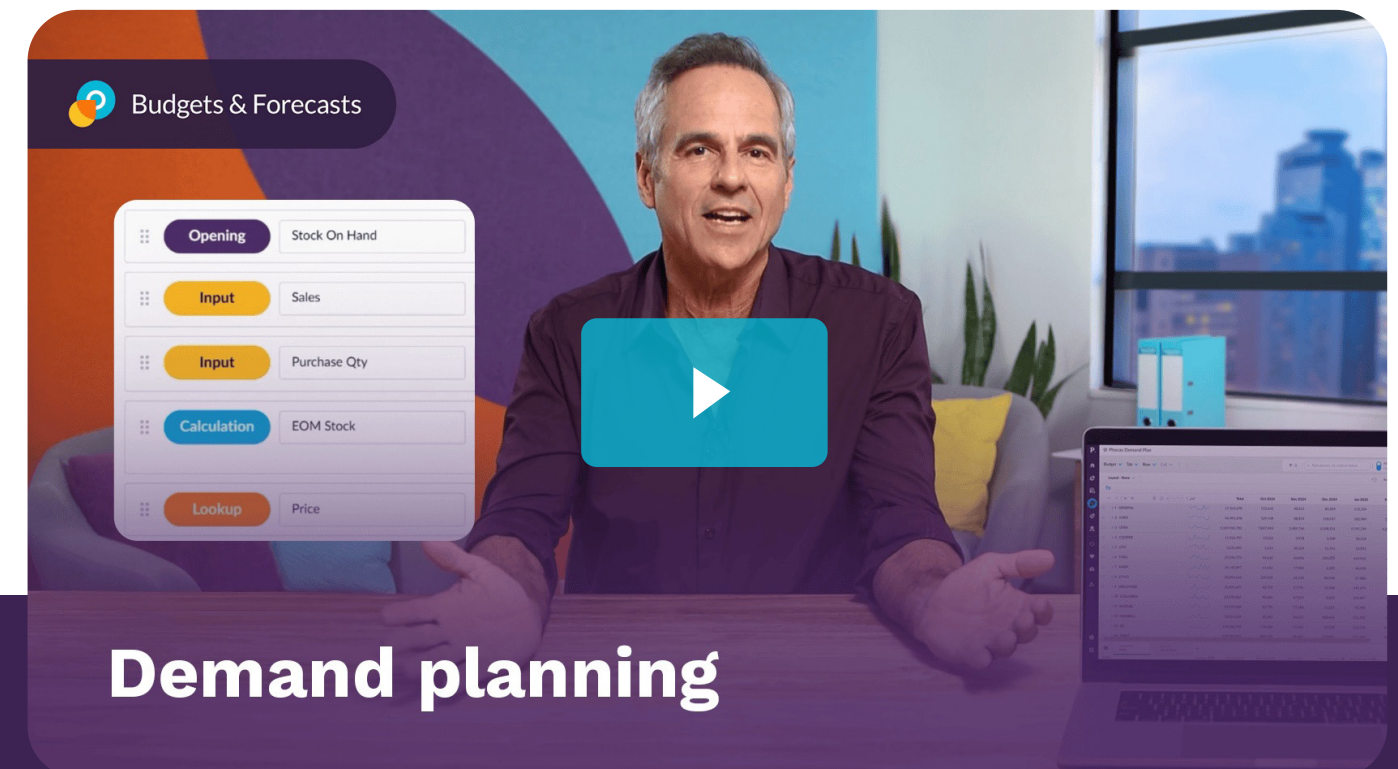
The screenshot shows a software interface with a formula bar. On the left, there is a blue button labeled 'Calculation'. Next to it is a text field containing 'Sales & Stock Snapshot'. To the right of this is another text field with 'PO Cost'. Following this is a blue icon with 'fx' and an equals sign. Then there is a yellow button labeled 'Purchase Qty', followed by a red button labeled 'Price'. To the right of these is another blue icon with 'fx' and the word 'FORMULA' with a dropdown arrow.

[Click](#) to watch this Demand planning video (2:38 mins) for more detail.

The Phocas Budgets and Forecasts software then performs the calculations based on the updated stock on hand, sales figures and what stock has been bought. The closing balance of stock each month then becomes the opening balance the next month in your demand plan.

**The demand plan quickly becomes the most valuable output of your purchasing, sales and finance teams.**

The demand plan takes into account the existing sales forecasts but also aligns them with your purchasing data to help you make informed decisions on future stock levels and purchases.



The video thumbnail shows a man in a dark shirt sitting at a desk, gesturing with his hands. In the background, there is a laptop displaying a software interface. Overlaid on the video is a semi-transparent box with the title 'Budgets & Forecasts' and a list of items: 'Opening Stock On Hand', 'Input Sales', 'Input Purchase Qty', 'Calculation EOM Stock', and 'Lookup Price'. A large blue play button is centered over the video. At the bottom of the thumbnail, the text 'Demand planning' is written in white.



## Case study

# Foodservice distributor builds dynamic, bottom-up budgets to better respond to complexity

Operating in the food wholesale industry, Savona Foodservice is a high transaction, low value business where margin management is critical. Stock control has also been a big challenge in recent years but one that's been made easier with Phocas Analytics.

Demand can be unpredictable in foodservice and customers can pull stock from the business without prior notice. Phocas helps Savona better plan for seasonality and establish different stock holding policies for different products depending on whether they're identified as slow or fast moving.

Mike and the team have streamlined their budgeting and forecasting with Phocas Budgets & Forecasts. Previously, they spent too much time manually compiling and printing reports, and budgets were only available weekly or monthly—too late for the sales team to react.

Now, they've adopted a bottom-up approach, making it easier to build budgets at a granular level. This helps them identify growth opportunities instead of relying on a blanket percentage increase, a common limitation of the top-down method.



We've implemented monthly budgeting for the field sales team, which they have access to daily. And they're actually knocking on my door waiting for the system to update because they want access to that data immediately so they can react.”

– Mike Morgan, Managing Director, Savona

[Read full case study](#)



# Get in touch with the distribution data analytics experts

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