



# Strategy

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## Floor Covering Industry Looks to the Future NAFCD supports association designed to save time, money and paperwork in the distribution channel process



By Amie Shak

Imagine a smooth ordering process with less paperwork. Imagine knowing there is a problem with your order before that order even arrives at your warehouse. Imagine – gasp – being able to go home before 8 p.m.

All of these things can be possible with the adoption of a technology that is already tried and tested, as well as one that will give your company better accuracy, save hours of manpower, eliminate an untold amount of paperwork and the chance for human error.

Floor covering industry, meet business to business electronic commerce. Also, meet the association working overtime to facilitate efficient business communications within the floor covering industry and to prepare it for its inevitable – and exciting – future.

After years of informal meetings, the Floor Covering Business to Business Association (FCB2B) was officially formed in 2007 and Aaron Pirner, CEO of CAP Carpet in Wichita, Kansas and immediate past chairman of the World Floor Covering Association; Pam Bowe, President of Bowe Co. in Seattle and technology consultant for several commercial flooring associations, dealers, manufacturers and other clients within the industry.

The FCB2B isn't re-inventing the wheel, not by any means. All these things can be accomplished by using an already tried and true set of efficiencies that are already used by innumerable other industries. The adoption of B2B technology can provide a more

effective set of business practices, thereby allowing more available time to develop your business and work with your customers. The question is no longer if, but when, and how, B2B technology will impact your business.

"There's just not enough money to be doing it old school," Steve Johnson, NAFCD past president and current FCB2B board member said. Everything is manual and that's kind of scary. This has got to happen and this seems to be the best platform out there – and it's tried and true."

Flooring Industry companies, from contractors, to software vendors, to manufacturers are all working together to create Flooring Industry B2B standards, which will allow companies large and small to take advantage of the cost benefits B2B technologies offer.

"It allows people who are running their business to do things that they are more successful at doing – which is usually not pushing paper around," Bowe said.

In 2003 Potomac Floor Covering, a commercial flooring contractor serving the Washington D.C. metropolitan area, executed its first B2B purchase order using Flooring Industry specific software. Potomac allowed the software to tie every element of the business together, from inventory management to sales orders, thereby streamlining the entire process and improving margins.

"My company typically had to send or fax a standard purchase order form to a supplier. Someone at the mill would pick up the form from the fax machine, take it to the order department and then fax back a standardized confirmation," Jim Creamer, President and CEO of Potomac Floor Covering said.

"B2B follows the same process, but since it is transmitted and stored electronically, the process is faster and more efficient," he said.

Doing business electronically gives your company some major advantages. Since the work is not being done manually, speed and accuracy of information is immediately improved. No more time will be wasted staring at a hand-written order trying to figure out if that mark is an 8 or a 9. Electronic commerce also improves inventory management and eliminates paper work.

"It's very easy and it saves you a lot of time, allowing you to focus on your customers. Without automation, you'd be relegated to a manual, mistake-ridden process. This process takes those excuses away," Pirner said.

In the distribution channel process, there are several opportunities for mistakes, and even though your business strives for none, everyone makes them at some point. The product goes through a lot of people before reaching the customer, leaving several opportunities for error.

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Dr. Albert D. Bates discusses payroll control in the latest NAFCD Profit Improvement Report

The goals may also need to vary depending upon economic conditions. As was shown in Exhibit 1, with a 10 percent sales increase it is relatively “easy” to produce a 2 percent sales to payroll delta. Payroll can increase by 8 percent which allows for adequate increases in compensation for the existing work force and possibly even additional staffing.

In contrast, with only a 5 percent sales increase, the 3 percent increase in payroll requires a much more austere approach to payroll planning. Certainly for some employees there is no latitude to increase compensation at all.

In a period of no sales growth, the 2 percent delta would require a reduction in payroll of 2 percent. At the most extreme, in a recession where sales fall by say 5 percent, then achieving the goal of 2 percent would require a 7 percent reduction in payroll. Clearly, the slower the sales growth, the more difficult the 2 percent goal is to achieve. Even so, firms should target the 2 percent as a realistic goal over time. For the next five years, a cumulative goal of 10 percent is desirable.

### Making Specific Improvements

It is a lot easier to talk about making payroll improvements than it is to actually make them. All the sales to payroll delta can do is suggest the magnitude of the improvements that are needed to reach higher levels of profitability. The goals need to be translated into specific actions.

As was noted earlier, generating a sales to payroll delta is much easier when sales are increasing. This means that the focus should be on creating an environment in which the firm generates modest sales growth continually. In essence, the firm must stop being captive to either market growth or prevailing economic conditions.

This conclusion leads back to a recurring theme in profit planning. NAFCD members must gain control over operating economics. This involves making significant improvements in three areas:

- **Sales per Order Line** — If the average line value on an invoice can be increased, then for the same level of expense, the firm generates more profit.
- **Lines per Order** — Working with customers to add one more line on every order creates more sales, but only a little more expense.
- **Fill Rate** — When the firm is out of stock a lot of effort is expended for no sales. A higher fill rate is always beneficial from a sales viewpoint.

Payroll is likely to be an issue for NAFCD members in perpetuity. Employees will always desire improved wages, and health insurance seems destined to increase at a significant rate. Firms must gain control over the payroll side, even in periods of modest sales growth. The sales to payroll delta is the most beneficial concept in planning for payroll control. ■

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*Dr. Albert D. Bates is founder and president of Profit Planning Group, a distribution research firm headquartered in Boulder, Colo. ©2008 Profit Planning Group. NAFCD has unlimited duplication rights for this manuscript. Further, members may duplicate this report for their internal use in any way desired. Duplication by any other organization in any manner is strictly prohibited.*

## Answers to Your Perplexing Questions

Have you had any gut wrenching discussions lately? Does your current business challenges raise the hair on the back of your head? Are you looking for possible solutions, new ideas to fix or reduce the daily grind of running your business? Or maybe you just want to vent! Well, we’ve a got program coming up for you.

As part of NAFCD’s Annual Conference, we’re incorporating several discussion group sessions for members on shipping, energy, margin erosions, expense recovery, sales compensation and recruitment for both residential and commercial applications.

Last’s year’s distributor roundtable was so successful we’re expanding the times and topics. Smaller, more intimate roundtables are planned with member facilitators to maximize your experience. We’ll be asking all in attendance to choose a table with no competitors so that you can freely share your ideas and experiences.

So if you want to get rid of your bad hair day, take the needle out of your heart and get rid of that pain in your chest, make sure to sign up for the sessions that will be part of NAFCD 37<sup>th</sup> Annual Conference.

## Floor Covering Industry Looks to the Future

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Say for example, a product goes through 10 different steps before reaching its final destination, from the sale of the item to filling the order, then shipping, receiving, scheduling an appointment and finally installing the product. “Even if everyone makes a 1 percent mistake, you’re 10 percent unacceptable to the customer,” Pirner said. With B2B technology, you’re in control over more of the process with less fingers and less steps, he added.

“The NAFCD is an active participant in the flooring b2b and we put our support behind this group,” Johnson said. “This is something all of us will have to do to remain competitive, and this flooring b2b seems to remain the best option.”

For more information on the association, visit [www.fcb2b.com](http://www.fcb2b.com). For information on dealers and end users, visit [www.accessb2b.com](http://www.accessb2b.com). For information on technical and X12 versions, visit <http://www.flooringb2bstandard.com>. ■