



**WHITEPAPER**

# The Profit Strategy and Analysis Guide for Consumer Goods Businesses

Good business leaders are always searching for ways to become more profitable. Though the success of a business relies on so many essential parts, without robust tools to monitor and analyze the financials of a company, it's going to be tough to stay in the black. Many consumer goods companies think they know the answer when they often lack the integrated systems and tools needed to automate and analyze profitability measures accurately at the customer, product and supplier level.

The general ledger gives chief financial officers (CFOs) a simplified view of profit-eroding costs and expenses. But that view only tells part of the story. The rest of the story comes from a richer perspective, one that details which customers, products and suppliers are responsible for those costs and expenses.

Understanding the impact of below-the-line expenses, such as negotiated and non-compliance related chargebacks, gives CFOs the answers they need to determine whether retailer relationships, individual brands or suppliers are contributing to—or eroding—company profitability. Understanding the root causes of rogue expenses can be powerful intelligence for CFOs.

Take customer freight charges. There are standard, garden-variety freight costs, negotiated allowances on freight, and rush freight charges that resound on the income statement. Because root causes for those charges aren't identified or clarified, profit from the sale won't accurately be reflected in customer, product, supplier and sales rep profitability calculations. This means CFOs will not have an accurate measure of how cost outliers impact these profitability views.

Another problem for consumer goods companies is understanding the true net profitability of their biggest customers. Standard accounting practices that look at gross margin calculations alone don't take into account royalties, commissions, chargebacks, exclusive deals, duty, insurance and more.

But leading-edge profitability tools that can allocate cost outliers do exist. These tools simplify profitability calculations and give an accurate and detailed view of customer profitability in a fraction of the time. While some companies use complex spreadsheets to derive profitability views, spreadsheet analysis comes at a high cost. Hours of manual number crunching, the potential for human error, and the lag time between last week's numbers and this week's profitability results, can negatively impact a consumer goods company's ability to make smart business decisions.

Best-in-class consumer goods companies are implementing best-practice enterprise resource planning (ERP) solutions that are fully integrated and industry-specific. These software solutions feature cascading data that automatically populates into profitability matrices, so CFOs can quickly and accurately calculate true net profit with a few simple keystrokes.

## **Gross Margin Calculations Aren't Enough**

Many software solutions can help calculate the gross margin of consumer goods. These tools generally deliver good enough results on landed costs by customer and by product. While calculating the landed cost of your brands is a valuable first step, calculations that only measure purchase price, duty, freight, brokerage and insurance fees don't go deep enough.

Instead, best-in-class consumer goods companies are using integrated net margin tools that dive deeper to calculate below-the-line consumer goods profitability—the real net profit results—by customer, product or supplier. Understanding the impact of commissions, royalties, cash discounts, freight adjustments, chargebacks, sales salaries, exclusive deals and more, can alter a company's view of their profitability landscape to reveal the land mines that are just below the surface endangering profit margins.



## Integrated Solutions Improve Performance

An ERP solution that is fully integrated into your business operations and leverages user-defined data fields and workflows can deliver fast, accurate and reliable results. Because all of your data lives in a single place, accessing it is simpler, and more importantly, it means everyone is working off of the same information. There's no more decision-making from the rear-view mirror, and there's no more room for data misalignment between departments.

Integrated profitability solutions also allow you to drill into the detail level of all your cost drivers, so you can see and understand the impact that individual costs are having on your business. Choosing an integrated profitability solution means fewer piles of paper on your desk, less manual administrative tasks and, consequently, less human error and fewer iterations of the same Excel spreadsheet. An industry-specific ERP solution allows you to focus more on cultivating your business.

An investment in an ERP that includes integrated profitability tools is a good business strategy. Some of the benefits consumer goods companies derive from these automated profit tools include:

- Dependable analytics and insight into real net bottom-line profitability
- Instantaneous, real-time information
- Improved data sharing and visibility throughout the organization
- Improved response times and decision making on processes, products and relationships that erode profit margins
- User-friendly tools that make it easy to share reporting in multiple formats to meet stakeholder needs and requirements

## Full Insight into Profitability

CFOs can't recognize and correct areas of the company that are underperforming without full insight into profitability. Being able to see and understand comparative results based on individual stores, chains, and products is a critical component when analyzing a company's true bottom-line results. Knowing how individual suppliers, products and trading partners measure up against each other provides a company with valuable intelligence that can be used to identify problems and opportunities, as well as set future strategy.

Consumer goods CFOs need to understand the industry-specific cost factors—such as chargebacks, fuel surcharges and allowances—that are hurting their profitability. If your solution to the profitability question doesn't include these variables at a customer, product or supplier level, then you don't see a complete and holistic view of your profitability picture.



# Integrated Systems Deliver Consistent and Powerful Results

An ERP that's equipped with profitability software considers all your cost drivers from manufacturing processes through order delivery. An integrated system that captures and tracks all this data can serve as a powerful tool to better understand and correct recurring procedural errors that are costing your organization money. Tracking your profit trends over time and comparing those results on measures such as write-offs, markdowns and defectives can drive the necessary process improvement changes your consumer goods company needs to boost its bottom line.

Integrated systems can help deliver consistent and powerful results in the following ways:

- **User-Defined Data Fields and Customized Views** - Software tools that enable CFOs to customize views of profitability data make it easy for financial teams to see profitability the way they want to see it. User-defined fields that automatically populate above-the-line and below-the-line cost drivers can save hours, or even days, of work while providing an accurate profitability snapshot by month or period. Tools that incorporate manual adjustments are timesavers, too. Incorporating month-end or period-based manual adjustments gives you an easy way to edit and adjust cost drivers that occur less frequently. Additionally, the inclusion of unlimited fields for user-defined allowances ensures you'll always be able to scale your profitability scorecard to include new cost drivers important to your profit reporting.
- **Calculating Profitability** - Calculating profitability is different depending on whether you measure it for customers, products or suppliers. For example, a chargeback from Walmart for failing to meet a labeling requirement impacts customer profitability but not product or supplier profitability. With the right tools, the layers of products, costs and partners can be ordered in easy to understand matrices that provide the summary and detail answers you need to understand your business better. Profitability tools that enable you to isolate and calculate cost drivers by customer, product and supplier will give you the most intimate view of your business. With the right profit tools, CFOs and other finance team members can analyze profitability categories on a broad or granular level for more in-depth business insight.
- **Comparative Trend Views** - Rooting out profit wasters from the hundreds of activities, processes and partners your company engages with annually can be an overwhelming task. Profit tools that display comparative and trend views, as well as trend sensitives, can help. Best-in-class companies use comparative views to contrast the bottom line profit results of each of their mass merchant retail partners, compare store-by-store margin returns, department-by-department results, and the performance of similar and dissimilar product categories and brands. Trend view takes the analysis one step further by comparing results over user-defined periods. Automated profit tools give you shorter cycle times to get to your real net bottom line so that you can make faster decisions. While actual, historical cost metrics paint a fuller picture that enables you to improve your decision-making.
- **A Quick Profit Snapshot** - Profit tools with fully configurable trend sensitivity features can automatically highlight user-defined cost outliers. Understanding your true profitability is fast and straightforward, with visual alert features that simplify profit analysis tasks. These tools automatically highlight positive and negative data trends that rise above or fall below user-defined thresholds, which makes it easier to see and respond to positive and negative data trends.
- **More Flexible Options** - Profitability solutions that feature a variety of flexible options offer the best value for your business. The ability to collect data on individual SKUs or profit groups enables you to view and analyze your business multi-dimensionally. Consumer goods companies often track costs, taxes and revenue in a variety of currencies and languages. For these companies, multi-lingual and multi-currency solutions are a must.

## Conclusion

Squeezing the most significant profits out of your consumer goods business requires organization, insight and discipline. The first step in understanding your enterprise's financial health is to gain visibility throughout your supply chain. An ERP that gives you full visibility into your business activities, no matter where they occur around the world, can give you the depth and detail you need to assess all your processes and business relationships.

**Aptean Apprise ERP** is an all-in-one system designed to handle everything consumer goods importers and distributors need to run and grow their business. Position yourself for financial success, closely monitor your profitability and bring simplicity to the bottom line using Apprise ERP as the primary general ledger and accounting tool for accounts payable and receivable.

### Profit Tool Checklist

Key features to look for in your next profitability solution

- ✓ Integrated into your ERP system
- ✓ Industry-specific for the consumer goods industry
- ✓ Provides manufacturing visibility into your plants, as well as third-party production partners
- ✓ Profitability by customer, product and supplier
- ✓ Integrates above-the-line and below-the-line cost drivers
- ✓ Includes open and resolved chargebacks
- ✓ Comparative and trend views
- ✓ Trend sensitivity tracking
- ✓ User-defined data fields: monthly and by accounting period
- ✓ Downstream data cascades captured in user-definable profit matrix
- ✓ Graphical views to visually alert you to changes
- ✓ Unlimited manual adjustment data fields
- ✓ Multi-currency for global business
- ✓ Simple setup to get started with little effort
- ✓ Advanced setup to tailor the profitability views to your unique needs

If you're interested in finding out how Apprise ERP's profitability tools can help your consumer goods company, **reach out** to us. We'd love to talk.



Aptean is a global provider of mission-critical, industry-specific software solutions. Aptean's purpose-built ERP and supply chain management solutions help address the unique challenges facing process and discrete manufacturers, distributors, and other focused organizations. Aptean's compliance solutions are built for companies serving specific markets such as finance, healthcare, biotech and pharmaceuticals. Over 2,500 organizations in more than 20 industries across 54 countries trust Aptean's solutions at their core to assist with running their operations. To learn more about Aptean and the markets we serve, visit [www.aptean.com](http://www.aptean.com).