

How Small Wholesale Distributors and Retailers Can Use Key Performance Indicators to Help Grow Their Businesses

Perspectives Report



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Introduction

Numbers matter. And if you run a small business, the numbers that matter most are those that reflect your ability to meet top business goals, such as attracting new customers, growing revenues, maximizing profitability and improving cash flow (Figure 1).

Figure 1: Top Business Goals for Small Businesses



Source: SMB Group 2017 U.S. SMB Routes to Market Study

But achieving these goals is easier said than done, especially if you're a small wholesale distributor or retailer. To grow your business, you need to cater to often unpredictable customer expectations, which are increasingly rising. Doing so requires you to know how your business is performing, often across multiple sales channels. You need to be able to easily spot customer trends and ensure that you have the right amount of inventory in place for different products. You also need solid information to answer questions such as the following:

- What's selling, what's not and what's back ordered?
- How well are promotions working?
- Are carriers delivering orders on time?
- Are customers coming back to buy more?

Having the ability to accurately and quickly answer these questions can be the difference between success and failure. When you have the right information at your fingertips, it's easier to prioritize and stay focused on the areas that are most critical to business health. But although almost every business sets forth goals, many businesses fall short when it comes to developing and using key performance indicators (KPIs) to track actual performance against goals.

In this paper, we examine what KPIs are, why they matter and some of the primary KPIs small wholesale distributors and retailers can use to gauge performance. We discuss why KPIs are often tough to implement as well as how to use integrated business solutions to more easily create, track and act on the KPIs that are critical for business success.

Section 1: Goals and KPIs: Set, Measure and Improve

Business goals and KPIs are both part of the business puzzle, but each piece is different. Most companies set goals as part of the business-planning process. Business goals are often framed at a macro level. They help everyone in the company both understand what the business wants to accomplish and make decisions that help to meet these goals. For instance, almost all businesses want to increase sales and operate more profitably. So, a business goal might be to “increase revenue by 10%” or to “boost profitability by 5%.” To turn these macro goals into realities, however, you need to figure out how to measure actual performance.

KPIs provide measurable values to help you understand where your business is and what trends are on the horizon so you can make the best decisions to meet your goals. That means drilling down another level to identify more specific goals to act on to help you achieve those top-level goals (Figure 2). For example, if a macro goal is to increase profitability, more specific goals to support this could include the following:

- Reducing the cost of sales by shortening the sales cycle by 50%
- Increasing existing customers’ average purchase by 20%

Based on these specifics, you can figure out—and plug in—relevant data source(s) to track and measure your progress.

Figure 2: Developing Actionable KPIs



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Source: SMB Group 2017

After you select the measurements to help you gauge whether you're meeting your goal and then plug in the data source, the next step is to set a realistic goal to measure progress during a given time period. Then, choose a comparison period, such as the prior quarter or year, and voilà—you've created KPIs that shape the story of how your business is performing.

"Metrics tell us a lot about the frequency and amount of contact we need to have. Having those tie together is very helpful in terms of hitting our strategic goals."

— Rett Clevenger, CEO, Steals.com

Remember, though, that even very small businesses have lots of data, making it easy to get overwhelmed. Focus first on the most important aspects of your business and the key areas that you can act on to improve results.

Section 2: Key KPIs for Small Wholesale Distributors and Retailers

Almost every business monitors sales (or the amount of revenue) and profitability (or gross profits as a percentage of sales). However, more specific KPIs can help small wholesale distributors and retailers gain the actionable insights needed to achieve these top-line goals (Figure 3).

Figure 3: Essential KPIs for Small Wholesale Distributors and Retailers

<i>KPI</i>	<i>Description</i>	<i>Use</i>
Sales Channel and Product Performance	Sales can be measured across different online/physical locations and sales channels and then compared across product categories.	Assess customer and channel trends, and develop marketing strategies and offers that enable you to increase sales.
Inventory Turnover	Turnover is the number of times the average inventory of a product is sold in a year, or how quickly you can sell your stock.	Higher inventory turnover ratios are usually preferable because it's expensive to have goods sitting on the shelves. If your turnover ratio is going down, inventory isn't turning over as fast as it had in the past. You may need to discount excess inventory to make way for more in-demand products or sell them through another channel. However, you also need to ensure that you have enough inventory in stock to meet customer demand—or risk losing the customer to competitors.
Average Customer Spend	This is the average amount a customer spends during each purchase.	Identifying the average customer spend helps you segment your customers, understand buying behavior and plan sales/marketing efforts to increase sales and profitability.
Customer Retention	Retention is the percentage of customers who make another purchase within a specified time period after their last order.	Understanding customer retention helps you determine what new categories to introduce customers to based on what they've bought in the past to increase sales.

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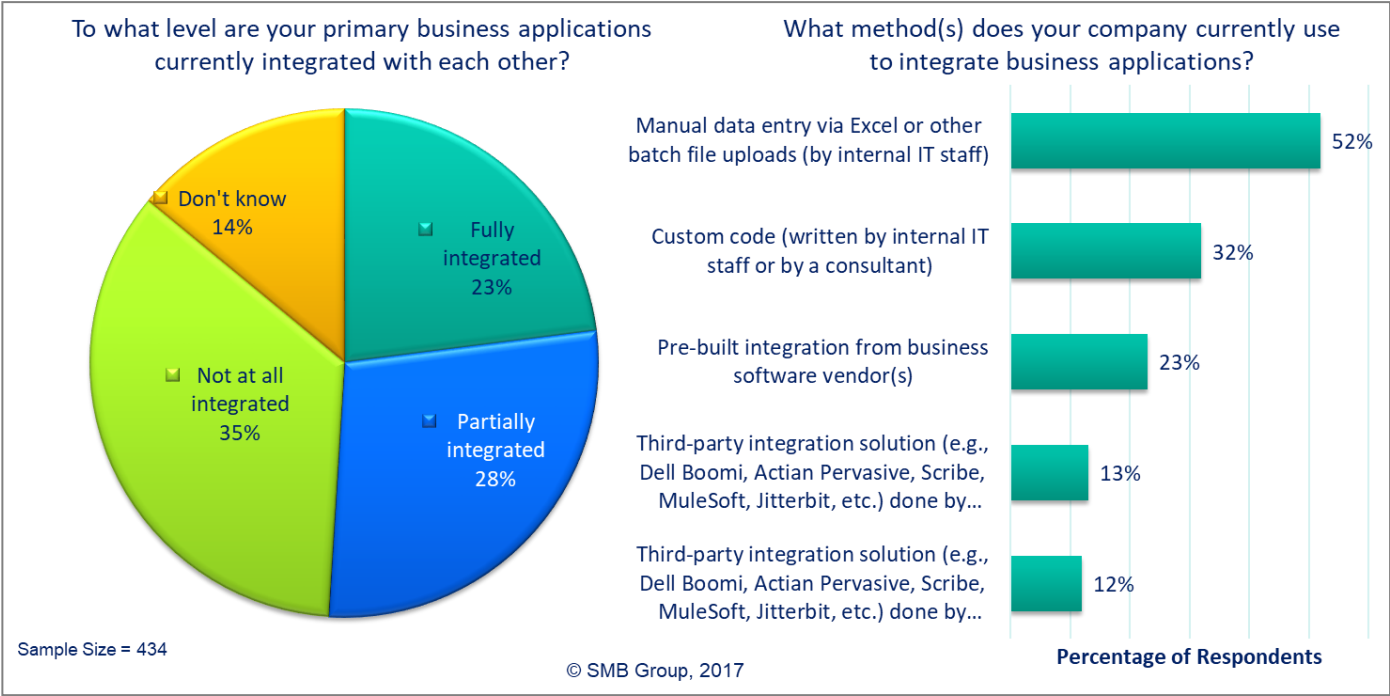
Section 3: Why Businesses Struggle to Implement KPIs

Many small wholesale distributors and retailers understand the value of KPIs but struggle to make them operational because they rely on a patchwork of databases, systems, spreadsheets and manual processes to manage sales, marketing and inventory. This approach is risky in today’s wholesale and retail environment, where sellers must juggle product availability and pricing demands from suppliers to meet the changing needs of increasingly demanding customers.

“Trying to manage customer service when inventory management, sales processing and follow-up aren’t connected, you spend way too much time trying to develop that on your own.”
— David Blake, Founder, Blue-9 Pet Products

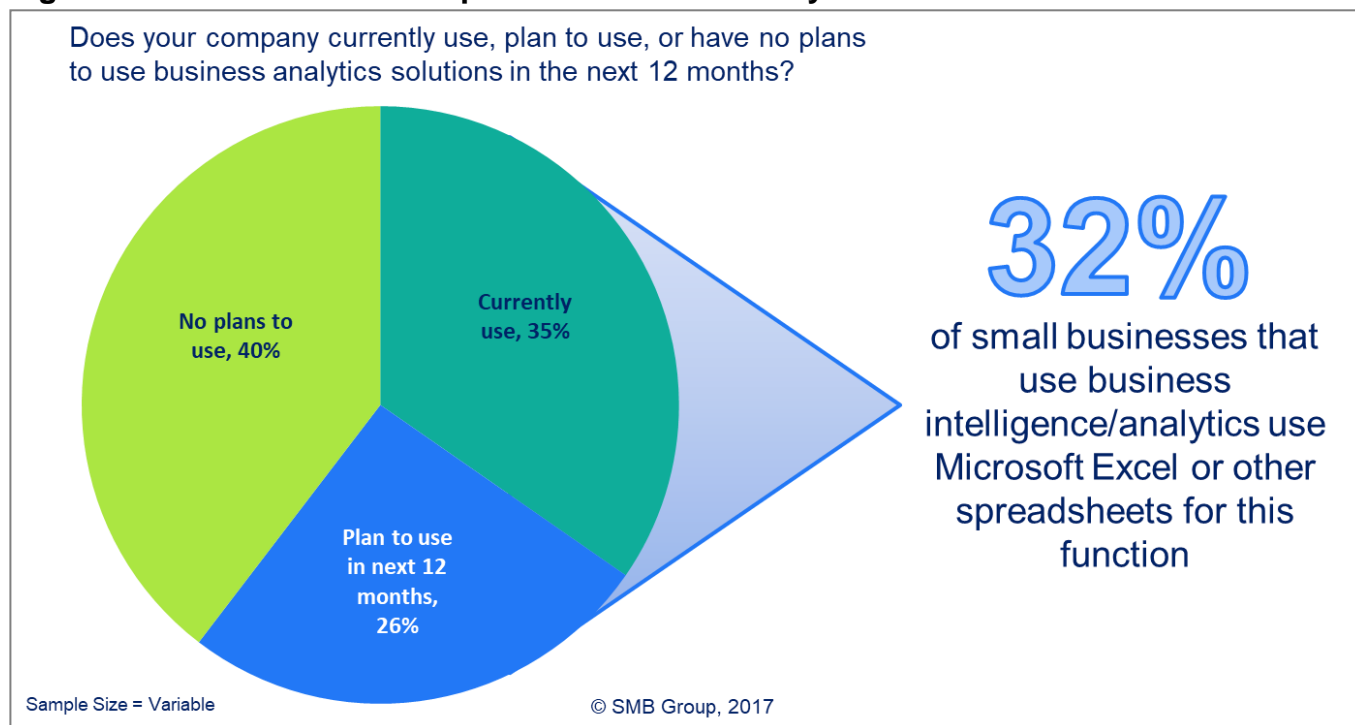
But integrating different point solutions is usually complex, costly and time consuming. As a result, most small resellers and wholesalers haven’t integrated their applications at all or have only partially integrated them (Figure 4). In addition, only one-third use analytics solutions to help them better understand what’s really going on, and among those that do, a third use spreadsheets for this purpose (Figure 5). This makes getting accurate, timely data to feed into KPIs a daunting—if not impossible—task.

Figure 4: Small Business Level and Method of Application Integration



Source: SMB Group 2017 U.S. SMB Routes to Market Study

Figure 5: Small Business Adoption of Business Analytics Solutions



Source: SMB Group 2017 U.S. SMB Routes to Market Study

In the short term, this creates a drag on the business. You wind up wasting time, making mistakes, losing money and missing opportunities because you don't have a clear picture of what's going on across the business. Headaches mount, and you risk degrading the shopping experience for buyers—which can slow down or even short circuit sales.

"It became apparent very quickly how difficult it was going to be for me to track and manage my inventory, to track and manage my customers, and to communicate with them."

— Mary Hagen, President, Hagen Hunting

Here are some of the warning signs that you're being blindsided:

- New leads are falling through the cracks, but you don't know where or why.
- You finally get a big order, but you don't have the inventory to fulfill it.
- Repeat and referral business drops off because you don't have a way to measure and improve customer loyalty.

In the long term, it's impossible to get a complete view of your business and see how different factors inter-relate to support decision making. Without these capabilities, it gets harder and harder to grow your business and increase profits.

Section 4: Making KPIs a Reality for Small Wholesale Distributors and Retailers

You can't wave a magic wand to erase these issues, but you can take steps to manage them with SAP Anywhere, which is built specifically for small wholesale distributors and retailers. SAP Anywhere does the work of up to a dozen different point solutions by integrating digital marketing, sales, customer service, inventory and analytics into one solution. Because it runs in the cloud, you can focus on running your business instead of installing and managing software.

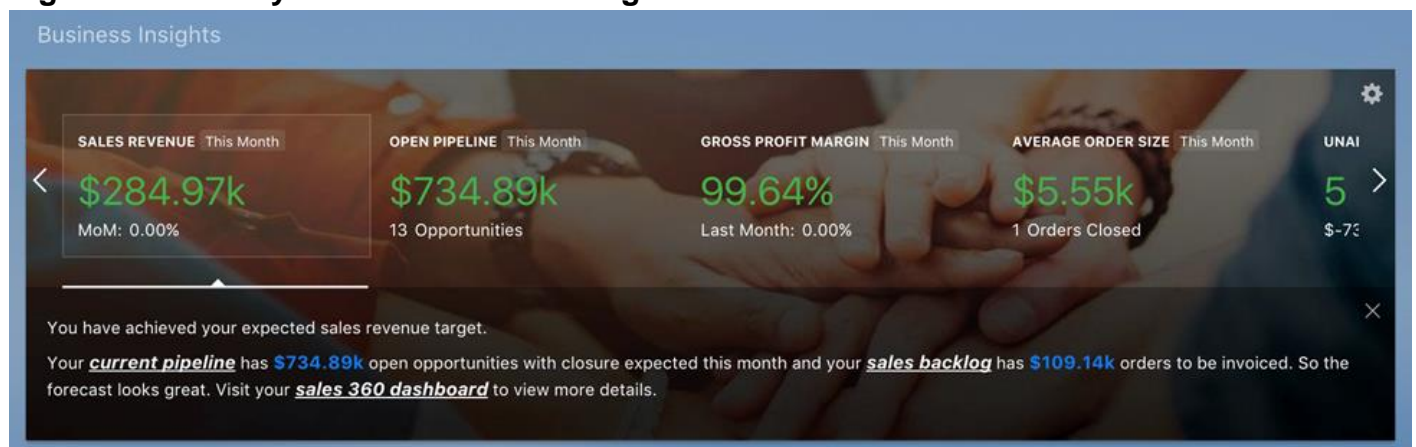
With one easy-to-use solution, all of your core business functions run on the same database with the same user interface. You enter information once, and it populates consistently throughout relevant business functions in real time.

"I was doing everything hodge-podge in the sense that this person can build my website and this person can help my social media. [SAP Anywhere] helped me centralize everything and realize how everything is connected. When you're working on a business, you see one thing and you start working towards that, but may not realize how everything else impacts that."

— Brittany White, Founder, Sweet Prima

SAP Anywhere has also embedded pre-built and customizable KPIs and dashboards directly into the platform, making it simple to set up and monitor KPIs in real time (Figure 6). Because the applications are integrated, you get a 360-degree view of KPIs across different business functions in the same dashboard. For instance, via SAP Anywhere's dashboard, you can compare revenue and margin trends, see which orders are backlogged and view repeat order information—all in one place.

Figure 6: SAP Anywhere Dashboard Insights



The solution also offers built-in analytics tools that can help you discover connections and dependencies you may not have suspected, to help you model new strategies before risking the consequences.

With all of your data, KPI and analytics tools in one place, you get a clear picture of each customer. Right from your dashboard, you can readily spot problems and opportunities as well as identify trends and patterns. For instance, having real-time visibility into purchasing trends and inventory levels makes it easier to stock for current and future demands, helping to reduce overstocking and forced discounting.

“SAP Anywhere has customizable dashboards, such as a Customer 360 view, which displays granular customer data, such as orders versus returns, alerts on open orders, unpaid orders, recent orders and other info that can be populated into a personal storefront view.”

— Jeff Becker, Executive Vice President, Microbattery

Summary and Perspective

In today's world, many avenues are available to grow your business, from adding new products and services, to expanding into new channels, to entering new geographic markets, to creating new marketing campaigns. But today's small wholesale distributors and retailers must figure out how to succeed in a sales, marketing and service environment that is increasingly more complex and competitive than their predecessors could have ever imagined. You need to understand what's happening in real time and see how different aspects of the business are working together—or not.

When you automate and integrate key front-office functions with analytics, KPI and dashboard tools, you get the clarity necessary to more easily manage operations as well as to track and measure the key metrics that gauge business health. Armed with these insights, you can tweak and improve different areas of the business as needed to optimize results, grow your business more profitably and be ready when opportunity knocks.

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