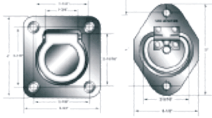


Steeves Agencies Inc. Reduces Inventory and Increases Gross Margins



Steeves Agencies Inc
www.steeves.ca

Industry
Door & Assembly

Annual Revenue
\$1.5 Million

**F.H. Black & Company
Products and Services**

- Business Process Review
- Distributor Diagnostic Check
- Blue Link Elite® with the Advanced Landed Cost module
- Inventory Management Toolkit
- Microsoft SQL Server
- Microsoft Exchange Server

Profitable companies are often unaware of business inefficiencies. For many businesses, “the enemy of great is good”

“We can see trends in our data that we couldn’t before. We have less inventory but it’s better inventory and that’s only going to keep improving” — Brian Steeves, CEO

The Customer

Steeves Agencies Inc. is a 27-year-old distributor of specialty door and assembly hardware. It has annual revenues of about \$1.5 million, much of it from the sale of latches and hinges found on metal enclosures, trucks, buses, ambulances and fire trucks.

Its president, Brian Steeves, began his career with the company 16 years ago. He succeeded his father, Wilf, in 2000. The firm has three employees in its Winnipeg office and 5,000 square feet of warehouse space.

The Challenge

Brian Steeves had a warehouse full of dead inventory and didn't even know it. The company was very profitable, and pro-active inventory management did not seem to be as much of a priority as generating new sources of revenue.

With more than 20,000 stock keeping units (SKUs) and weak inventory management software that provided minimal information about what was selling and what was gathering dust, he was unable to dig into the company's own data to see trends or identify problems.

“I could muddle through and get some information from the software, but it was pretty limited. It needed somebody with expertise in data bases to be able to analyze it; I didn't have that.”

He says he was frustrated with the existing software product because not only was it an unfriendly package, it was also expensive to maintain and upgrade.

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Analysis of Business Practices identified inefficiencies while detailed financial analysis and benchmarking allowed for comparison with competitors.

Blue Link Elite® Software along with Inventory Management Toolkit implementation maximizes efficiencies and profits by:

- **identifying dead stock**
- **identifying non-stock (special order) items**
- **automatically creating purchase orders using up-to-date forecasted future demand and Wholesale Distribution best practice reordering parameters**
- **providing the ability to view inventory valuations based on product number, class, vendor, rank, and category/subcategory**
- **providing an executive summary of financial information,**
- **tracking full landed cost of all inventory items to facilitate proper pricing and discounting decisions.**

Some items normally sold once a week while others sold once a year. If sales of the latter SKUs dropped off, they became obsolete. "You can't tell if any one item isn't moving. It's not easy to readily identify what items aren't selling, certainly not by looking at them on the shelves," he says.

The irony to Steeves' situation was, as a distributor, he needed to be on top of his firm's inventory levels, something he hadn't had the tools or process to facilitate. When he ran out of a particular item, but his current needs weren't enough to place a minimum order, he'd simply add other things to the list until the order threshold had been reached.

"It was a fairly loose system," he says. "We had no way of tracking the fast-moving items. Our system was, 'when we're out of stock, we order more'."

The Solution

A year ago, Steeves sought out F.H. Black & Company to do an analysis of his firm's business practices, identify the inefficiencies and recommend solutions. Jamie Black, who heads up the Winnipeg-based professional service firm's information technology operations, oversaw the project. His team started out with an examination of Steeves Agencies' strengths and weaknesses as well as its opportunities and threats.

That was followed by a Distributor Diagnostic Check, which included comparing its financial and operational performance with those of its competitors as well as industry averages (benchmarking).

Black says all too often when clients first come to F.H. Black & Company, they do their ordering using SWAG – "a scientific wild-ass guess" – usually because they have no other support mechanism to enable the proper approach.

Eventually, it was decided that Blue Link Elite®, a Canadian-made software product, would be the best fit for Steeves' challenges. The full suite of modules implemented by F.H. Black & Company automated the purchasing process and management of Steeves' inventory.

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It didn't take long to have an effect. Six months after adopting the new management system and implementing recommended process changes, inventory levels at Steeves Agencies were down by 20 per cent while profitability grew.

Black says our clients will typically evaluate their business in a couple of different ways, the most common of which is to look at their financial statements to determine if their year-over-year net profit is going up. If it is, they can often be lulled into a false sense of security. "The enemy of great is good. If you're doing well, you can get complacent and you won't strive for that greater level of success," he says.

Black notes distributors need to have a clear sense of "the good, the bad and the ugly" within their inventory if they want to maximize efficiencies and ultimately, profits. He says it's quite common for companies to have 30, 40, even 50 per cent of what's stacked up in their warehouses as dead inventory. That's why one of his first objectives is to rank SKUs and compare their gross margin generating ability with the dollar value of what's on hand.

"We help clients understand they shouldn't see inventory as items in their warehouses. They should see it as dollar bills—it's just money in a different form. You want to keep as little of it on your shelves as possible while meeting all the demands of your customers."

For example, if a particular item contributes \$500,000 of your annual gross margin, having \$400,000 of it on hand is a good thing. Having \$200,000 worth of a product that generated \$100 of gross margin, on the other hand, is not.

The Results

It didn't take long to have an effect. Six months after adopting the new management system and implementing recommended process changes, inventory levels at Steeves Agencies were down by 20 per cent while profitability grew.

Steeves says there's no question his company is more efficient after the implementation of the new software and related business processes. (It was determined that about \$175,000 of the \$500,000 worth of inventory in the Steeves Agencies' warehouse no longer had a pulse, and actually cost money just sitting there, taking up valuable warehouse space.)

continued

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"This year, the major question from our accountant was, 'What's this receipt for?' That's easy to answer. Last year it was, 'Can you tell me why your inventory is \$100,000 out of whack?'" he says, adding the transparency of the new system is saving dozens of hours of time at year-end alone.

The company's gross margin is up one per cent over last year in an industry with fierce pricing competition and already slim margins, and Steeves predicts it will go up four or five per cent in total once all the efficiencies work their way through the system.

"We can see trends in our data that we couldn't before. We have less inventory but it's better inventory and that's only going to keep improving," he says.

Steeves says much of their dead inventory has now been transformed into something valuable — cash. Our inventory burden has been reduced by \$150,000. It puts us in a better cash position, it has freed up money to buy the inventory we really do need and it reduces our dependence on the bank. We don't have to use our line of credit," he says. The costs of implementing the new system have been more than recovered by the elimination of inventory carrying charges, and will continue to provide positive returns through increased future revenues.

Steeves says his company, which has been successful and profitable for 26 years, is poised for even greater things in the future.

"The way we manage our inventory, process orders and track our costs is way better than it used to be. We're identifying areas that will make us even more profitable. We're excited about the changes we've made," he says.



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