



## Wholesaler and Manufacturer Challenges: Strategic Cost Containment (Part 2)

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In this series of articles, we are taking a close-up look at some of the financial and operational challenges faced by wholesalers and manufacturers, as well as potential solutions that an outsourced CFO services provider can help implement.

### Understanding and Controlling Costs

Cost containment is critical for wholesalers and manufacturers, given the tight margins that most of them work within — not to mention the fact that they often must share profits with retailers. Often, however, they don't have access to accurate and timely reporting, which hinders their ability to understand and, thus, control their costs.

Here are three areas of particular concern for wholesalers and manufacturers when it comes to strategic cost containment:

#### 1. Shipping costs

High freight and shipping costs are a fact of life for most wholesalers and manufacturers. These may be incurred in the process of receiving product and raw materials from suppliers (in which case they are considered COS or inventory costs) or in the process of getting finished product out to customers (in which case they are considered G&A costs). The challenges involved in containing shipping costs are many:

- Understanding and navigating the byzantine rules that govern shipping rates in order to realize cost savings.
- Negotiating the most favorable shipping contracts with shippers.
- Automating labor-intensive shipping processes.
- Dealing with disputes and managing unanticipated expenses and shipping delays that erode margins.

An outsourced CFO services firm can work with wholesalers and manufacturers to help optimize their shipping processes and contain shipping costs. Services may include evaluating shipping bills, installing optimized shipping ERP and EDI applications, making recommendations for process improvements, and working with third parties to identify and assess opportunities for savings.

#### 2. Chargebacks

These can represent huge dollar volumes for wholesalers and manufacturers, significantly impacting margins. In fact, many retailers consider chargebacks to be a profit center for themselves. Chargebacks may occur in a number of different areas, including:

- Products damaged in shipping
- Shrinkage, missing items or a lost shipment
- Arrival of shipment too early or too late
- Confusion in packing quantity (i.e., quantity per carton, per unit, or per box?)

Resolving chargebacks may require many attempts over weeks or even months as issues arise and dispute reviews are initiated, submitted and resubmitted. Wholesalers and manufacturers, meanwhile, often have to jump through myriad hoops created by retailers — especially with big box chains, who often have detailed process and technology requirements. An outsourced CFO services provider can help wholesalers and manufacturers find the right EDI system to efficiently address chargeback issues, and then work with the EDI vendor to install the system.

### **3. Commissions**

A large portion of wholesalers' and manufacturers' expenses may go toward the payment of commissions to salespeople, brokers, and other referral partners. Often, however, there is no application in place to monitor how commissions are paid and how much is being paid out. For example, are commissions based on overall sales volume, increases in sales volume over a previous period, or the profitability of the sales that are made?

The timing of commission payments can also be problematic. For example, are commissions being paid out before payment is actually collected from the customer? If so, this can lead to cash flow problems for the wholesaler or manufacturer. An outsourced CFO services firm can make recommendations to optimize commission structures and support the review and implementation of a commission software solution.

### **Concluding Thoughts**

In the current uncertain economic and business environment, Los Angeles and Southern California wholesalers and manufacturers can't afford *not* to focus on strategic cost containment. A provider of CFO services can offer invaluable assistance in this area by helping ensure access to timely and accurate reporting information, as well as digging into the three areas covered here — shipping, chargebacks and commissions — to help optimize processes and contain these costs.

### **About CFO Edge**

CFO Edge, LLC is a leading Southern California provider of outsourced CFO services. Based in Los Angeles, we are a group of experienced chief financial officers who engage with CEOs and CFOs on demand to address strategic planning, business management, and day-to-day financial operations challenges. Our seasoned professionals deliver services as interim CFOs, part-time CFOs, project-based CFOs, recruitment-to-permanent CFOs and interim-to-permanent CFOs. At CFO Edge, we're passionate about helping our clients create, grow and sustain value. For more information, visit [www.cfoedge.com](http://www.cfoedge.com) or call 626.683.8840.

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