# CUSTOMER AND INVENTOY'S STRATEGIES

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Abstract — in this research, we propose a customer strategy based on Hisco Inc's financial analysis. The objective of this study is to give top management some recommendation based on customers' classification. From the proposal of the customer's strategy, we analysis and classify the customer into four categories Cost to Sever, Growth Potential, Net margin and Loyalty. We select the most important categories that affect in Hisco profitability which are Cost to serve and Net Margin. We develop frameworks for Cost to Serve and Net Margin to see who the customers who are profitable and have high margin.

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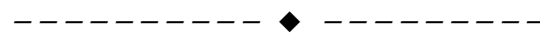
1 INTRODUCTION

In this study, we will discuss and give some recommendations about customers' strategic. Hiscowas founded in 1940's as a supplier company for industrial equipment in Houston. Today, the branch network of international Hisco includes storage location from 23-34 in US. These locations in US were operated by subsidiaryin Canada and Hisco in Mexico. Hisco provides to customers in electrical manufacturing such as, electronic assembly, Aerospace defense, general Industrial, logistic Services, transportation and medical. It has stocks more than 55,000 products from suppliers such as 3M, Brady, Cookson, GE Silicones, and Loctite. However, during the last 42 years Hisco' suppliers have grown to supply 3M™, Alpha Metals, Momentive Performance Materials, and Loctite. The strong commitments between Hisco and its suppliers, allows the company to give solution to its customers via products that give optimum value.

1.1 PROBLEM DESCRIPTION

During the recession in 2008-2010, Hisco lost the ability to control its sales revenue. The ability to build strong and successful relationships with customers is critical for success, customer expectations increase empowerment and compete on price, and quality of products intensifies. To avoid bankruptcy, Hisco has to negotiate new policies with its customers. Since Hisco's sales come from its services, these services to its customers cost the company and reduce revenue. In this study, we perform customers and inventories' stratifications of products and proposepolicies based on the stratifications. We analyze the optimality of our strategy based on the financial statements of the company.

1.2 SOLUTION APPROACH

In this project, we propose a customer & inventory strategies based on Hisco Inc's financial analysis. The objective of this study is to give top management some recommendations based on customers & inventories' classifications and long term debt reduction to improve the bottom-line for the company. Firstly, from the proposal of the customer's strategy, we analysis and classify the customers' stratification based on Appendix I into four categories cost to sever, growth potential, net margin and loyalty. We select the most important categories that affect in Hisco profitability which are cost to serve and net margin. Then we develop frameworks for cost to serve and

net margin to see who are the profitable customers and have high margin for the company. Secondly, we propose an inventory stratification, which includes three critical factors sales dollar value, sales hits and the inventory dollar value based on Appendix II. The inventory dollar value corresponds to the products that contribute 85% of the overall sales revenue for Hisco. Then we use the inventory dollar value to compute the GMROII associated with that inventoried item. This measurement reflects how much the company earns in gross margin for a dollar invested in a product. These criteria are to determine and separate profitable class of inventory from the unprofitable class. However, we propose a new strategy to the company for tracking and achieving its inventory management objectives by recovering capital from the unprofitable products, redeploying a portion of the recovered capital in profitable products and reducing the long-term debts, if profitable. Determine the proportion of the optimal use of capital recovered in products of redeployment in profitable inventory and reduce long-term debt. Optimal ratio is determined based on the four financial metrics, a gross margin, operating margin, and the potential for growth and return on net assets.

1.3 CUSTOMER STRATIFICATION

We have 20 customers, 4 factors (cost to serve, growth potential, net margin, loyalty index) as shown in Appendix I. Cost to serve and net margin are the items that we are going to work with table We assign a grade point on a scale of 1 to 4 based on the value corresponding to each critical factor (20 Retailers). For instance, for the cost to serve, we sort the customers in decreasing of the time of cost to serve customer.. The bottom 20 percent of customer is assigned 4 points, the next 20 percent of the customers is assigned 3 points, the next 20 percent of the customers is assigned 2 points, and the top 40 percent is assigned 1 point. Table 2 shows the ranks for each customer. That is depending on the Customer Selection guidance table 1.Appendix II shows the four selections after ranking. Appendix I

Customer Selection							
Cost To Serve 25%		Growth Potential 30%		Net Margin 30%		Loyalty 15%	
Percentile	Points	Percentile	Points	Percentile	Points	Percentile	Points
Bottom 20	4	Top 30	4	Top 40	4	Top 40	4
Next 20	3	Next 30	3	Next 20	3	Next 20	3
Next 20	2	Next 20	2	Next 20	2	Next 20	2
Top 40	1	Bottom 20	1	Bottom 20	1	Bottom 20	1

Table 1: Individual Ranking Guideline for customers' stratification
After we designate the grade points for each product corresponding to the four critical factors (cost to serve, growth potential, net margin,

loyalty), we combine the grade points to obtain an overall rank for each product. We assign 25 percent to cost to Serve, 30 percent to growth potential, 30 percent to net margin and 15 percent to loyalty. Then, we classify the customers into four categories, namely class A, B, C, and D. We follow the guideline presented in table2for assigning a class label to the customer. We present the results Appendix III.
Table 2: Overall Ranking Guideline for customer stratification

1.4 REDUCTION OF DAYS SALES OUTSTANDING

Based on the Results of stratification, we recommend the management to reduce days from the class C and D which is 47.745 days to 33.47 days. Reducing time gives ability to receive its money from it retailers. Item inventories for cost to serve customers to pay the company. So, the new value is going to be 30 days and the weighted average is 33, 5 days which reduce account receivable in the balance sheet. As shown in table 3

Day sells outstanding (DSO)	47.45	33.47
DPO	36.96	36.96
EBITDA	$ 151,938,359	$ 1,429,539,305.47
Net Asset(Equity)	$ 731,011,882.55	$ 768,631,143.96

GM%	51%	63%
GMROLL	51%	696%
Revenue Growth		39%
Working Capital as a Percentage of revenue	1270960033	1134544323
RONA=EBITDA/Net Asset	20.78%	185.99%

Table 3
Rona was 20.78% so after our result it increases to 185.99%.

Class	Range
A	[3.75, 4.0]
B	[3.25, 3.75)
C	[2.8, 3.25)
D	[0, 2.8)

1.5 CONCLUSION

We have 20 Retailers for Hisco's company, cost to serve and net margin are the items that we are going to work with to reduce the time and the cost to serve. Then, we assign a grade point on a scale of 1 to 4 based on the value corresponding to each critical factor (20 Retailers). The decision that we going to do, will be to reduce the time for CTS and Negotiate the price for the NM. After that, we classify the products into four categories, namely class A, B, C, and D.Based on the Results of stratification we reduce days from the class C and D, which is 47.745 days to 33.47 days. Reducing time gives ability to receive its money from it retailers so EBITDA and RONA Significant increases.

1.6 REFERENCES:

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