

AHTD Week Nine Survey Report

By Frank Hurtte | River Heights Consulting



Welcome back to the AHTD COVID-19 business survey. I am constantly amazed by the candid sharing within our group. It truly demonstrates the power of AHTD.

The survey will continue (for the time being) in every other week format. We'll continue tracking business levels but have added more granularity and other user suggested questions to the mix.

What Have We Seen?

Reports from across the U.S. and Canada point to a slow but noticeable recovery. Everyone we interviewed indicated salespeople are still mostly working by phone but making emergency visits when the situation warrants such. Further, customers are slowly coming to life. At least one distributor said backlogs are growing and have reached a new high. But the shipment dates for many of these orders is relatively distant, so no massive change yet.

Over the course of the previous surveys, we have largely focused on top-line sales. But, for distributors, Gross Margin (GM) is the critically important issue. The embedded support, services, and expertise applied directly at the customer are funded by GM dollars generated. Our knowledge-based distribution model requires a higher GM percentage to operate than companies who simply provide logistics.

Gross Margin Pressures

Based on the 2018 AHTD profit benchmarking report, the typical ASP/distributor requires an average GM percentage of 24.3 to cover operating expenses. While situations vary, and our current status is far from typical, this number is our "break-even point" under normal circumstances. In a previous post, we discussed customer form letters asking for/demanding major price reductions with 10 percent cuts being the most common. While most AHTD members refused the demand, experience dictates at least some price erosion probably took place. We need to explore the situation and provide some thoughts for all to share.

Supplier Form Letters

Akin to the nice letters from customers, at least two distributors shared letters from their suppliers which impact profitability. One letter stated:

"In order to assist in the absorption of the additional costs of logistics, inbound freight, expediting surcharges, deep cleaning services, and other ancillary charges, we will be initiating a business continuity surcharge that is planned to end December 31, 2020 (3% of total order value that will be included on your invoices)."

Based on our analysis, this surcharge must be passed along to the end customer.

Another supplier decided this would be a good time to move all distributors to COD status—forever. Keeping in mind customers are unilaterally extending payment terms, this idea puts additional stress and strain on the financials of distributors.

If you have received one of these letters from a supplier—please pass it along. I have decided that collecting these letters would make a great Corona quarantine hobby.

Finally, a Word on Confidentiality

Some of the information requested in this survey is both important and confidential. It is also necessary to provide meaningful data to other members of the group. Please be assured, individual responses from those surveyed are guarded and treated with the utmost respect. If you are still concerned about this information leaking out, please take the survey but leave your name and company name blank. We get the information with no ties to your organization.

[Take Survey](#)

To demonstrate my new-found familiarity with Star Trek reruns, allow me to share sage business advise from the Enterprise's First Mate and Science Officer:

Live Long and Prosper!



Have a great week and stay tuned for a new report soon...