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This article appeared in the OCT ■ NOV ■ DEC 2013 issue of *insiderPROFILES* (insiderPROFILESonline.com) and appears here with permission from WIS PUBLISHING.

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Taming a Wild Receivables Model

How Distributor **Animal Health International** Created a Clearer Profitability Picture

by **Ken Murphy**, Senior Writer

With more than one billion in annual sales at Animal Health International, around one-third of this revenue is affected by chargebacks or promotions. And when it comes to vendor receivables, the business has to have retrieval instincts akin to the companion animals its products help keep healthy. Quite simply, money left “un-fetched,” could be the difference in turning a profit or a loss. The roughly \$500 million eligible for chargeback collections translates into \$65–\$80 million each year in potential lost revenue.

While the business makes every effort to collect this money, until recently, it relied mostly on manual processes to reconcile invoices against chargebacks and promotions in the general ledger, then invoiced vendors after its month-end financial close. This wasn’t an optimal situation. Without knowing the true value of a sale at the time of the order, sales representatives might offer different deals or products to other customers. A clearer picture into day-to-day sales could suggest another approach, but without this information, sales representatives might focus on less revenue-generating opportunities.

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At a Glance

Goal: Automate chargebacks, rebates, and promotion processes for increased visibility into sales and profitability

Strategy: Implemented SAP Paybacks and Chargebacks by Vistex and SAP Data Maintenance for ERP by Vistex for increased pricing efficiency

Outcome: The ability to capture chargebacks and promotional campaigns in real time and provide accurate vendor and customer invoicing at point of sale

As Tim Hays, Vice President of IT at Animal Health International, explains, “Predicting to make money at the end of the month with an expected rebate isn’t the same as being sure it’s accounted for, and that doesn’t provide a true profitability picture.” And with the company’s massive network of manufacturers, partners, and products ranging from pharmaceuticals and vaccines to pet foods and electronic fences, a precise accounting of sales — and profits — is vital to operations.

Visibility becomes even more important when factoring in the many layered complexities of some manufacturer promotional campaigns. With countless promotions influencing sales of its roughly 75,000 products, the business must keep a strict accounting of which promotions customers are eligible for in order to invoice correctly on both the customer and vendor side.

A Clean Sweep

In 2010, when Animal Health International was implementing SAP ERP, the business looked for ready-made solutions that could address these business concerns. In parallel with its SAP ERP project, it decided on a package of tools: SAP Paybacks and Chargebacks application by Vistex and SAP Data Maintenance for ERP application by Vistex for increased pricing efficiency.

“We had built some manual and automated processes around chargebacks and collections, but as we were designing the SAP ERP system, we knew we had to have an automated system,” Hays says. “SAP ERP had some white space in those areas, so we had to either build and maintain custom code ourselves, or find a solution we could configure to handle those business systems. These two SAP solution extensions stepped up to fill that space.”

With SAP Paybacks and Chargebacks automating the chargeback process at point of sale, and SAP Data Maintenance for pricing integrating with the solution to calculate gross margins of promotions, the company could address its pressing business concerns in these areas.

Creating Analysts

With SAP Paybacks and Chargebacks, the business immediately had a clearer view of its overall profitability picture by eliminating the need for back-end manual calculations. Previously, data clerks with accounting experience would pore over sales reports and vendor invoices to make sure that every eligible chargeback was accounted for and invoiced correctly. “Now, those people are looking at exceptions instead of sitting down and crunching the numbers,” Hays says. “And really, that should be the goal of any automation project — turning clerks into analysts.”

This speaks to one of the challenges Animal Health International faced with the project, which was trying to build out SAP Paybacks and Chargebacks to handle exceptions, rather than focus on the most common chargeback scenarios. The business regularly deals with enormously complicated rebate programs or promotions. Hays and IT, together with accounting, initially tried to consider all of them when they deployed the application. “That was definitely a key lesson learned, and we probably worked a little bit harder than we needed to,” Hays says. “Knowing what we know now, we would have put the system in place and built it up over time to enable new scenarios.”

According to Hays, this was a key benefit of leveraging these solutions, rather than attempting to build an in-house solution. Because other SAP customers deal with potential one-of-a-kind chargeback situations, SAP continually releases upgrades to account for these new promotional campaign scenarios, which the business can then take advantage of.

Exceptions aside, the day-to-day sales orders coming in to the company suddenly had a clear window into gross margins, pieces of which previously had been missing until month-end invoice reconciliations. “It’s hard to overstate the value of trying to make million-dollar bids without knowing what your profit picture is until after the fact. That’s pretty risky,” Hays says. “With this in place, we have a clear understanding of the profit picture in advance.”

More Numbers to Crunch

With SAP Data Maintenance for pricing in place, those million-dollar bids can also be sweetened by a seemingly endless array of vendor promotions that the business now has instant insight into. According to Hays, these are rarely of the buy 12, get one free variety, or buy \$100 worth of products and get 10% off. “The promotion could be buy 25,000 doses of any of the following 25 products, and you’re eligible to receive 500 free doses of



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— **Tim Hays**, Vice President of IT,
Animal Health International

Company Snapshot

Animal Health International

Headquarters: Greeley, Colorado

Industry: Distribution

Revenue: \$1 billion+

Employees: 1,000+

Company details:

- Formed in 2011 when Lextron, Inc. acquired Animal Health International, which had been known as Walco International
- Specializes in food and animal health products for companion, farm, and exotic animals
- Works with more than 2,500 manufacturers and partners to supply roughly 75,000 products and supplies to veterinary clinics, retailers, and livestock producers

SAP solutions:

- SAP ERP
- SAP Paybacks and Chargebacks application by Vistex
- SAP Data Maintenance for ERP application by Vistex
- SAP NetWeaver BW powered by SAP HANA
- SAP BusinessObjects solutions
- SAP Extended Warehouse Management
- SAP Business Planning and Consolidation

any of these other five products,” he says. “It becomes even more complicated because we don’t sell in doses, so there often has to be a material unit of measure conversion before you even start to get the complete picture.”

That then entails analyzing a customer’s entire shopping cart, and requiring logic for a line-by-line analysis of whether the customer bought the product in the amounts required to make the order eligible for the promotion. “Our development team built that functionality in the SAP system through customization, but as the promotions become more complex, the scenarios that you plan for can then differ slightly from a newer promotion,” says Hays, who describes a constant game of catch-up that then has to be maintained internally. “SAP Data Maintenance for pricing was released right around that time, and moving to a more standard solution that others would maintain was attractive to us.”

According to Hays, this implementation has freed up approximately 60 manpower hours each week for IT to work on more value-added projects, and gives the business the peace of mind that SAP Data Maintenance for pricing, instead of playing catch-up, will time releases to stay ahead of the latest out-of-the-box promotional campaigns. “Ultimately, everyone wins,” he says. “The application allows us to automate more promotions and track more programs, and we can pass those on to our customers. Otherwise, some of those promotional deals would have been either too difficult or too costly to pass on to the customer.”

He adds, “As every wholesale distribution company knows, pricing products for the customer is complicated. We’re executing deals everywhere, and every customer has a specific price. There are thousands of lines of SAP code that are executed to price a single order line, and this occurs with every order. By improving the response time, you create happier customers.”

While the company may have pursued this project more with an eye toward the bottom line, an improved customer experience is certainly a nice off-shoot. While customers likely don’t know what IT systems the business uses, several have provided feedback recently that they feel more like a business partner in their dealings with the company. Hays says, “It’s the mentality you look for in the sales process, when customers don’t feel like we’re just trying to sell them something, but we’re trying to help them out.”

He brings this point home in conclusion, saying, “The big idea behind this project is speed, speed, speed. It’s not the big that eat the small — it’s the fast that eat the slow.” ■