Benefits of Sharing Costs of Goods Sold and Product & Price Updates

Within the power transmission/motion control industry, distributors and manufacturers agree that the efficient sharing of information allows both sides to better serve their mutual customers and reduces the costs of doing business. When information is shared using a standard format, the amount of time needed to share the information is substantially reduced to a few clicks of a mouse and the accuracy is greatly enhanced as data is moved without much human intervention. Streamlining the transfer of data with an industry-accepted format leads to increased sales and improved margins.

Costs of goods sold (COGS) data and product and price information are the easiest data to share between distributors and manufacturers using the PTDA-developed COGS format and the PPIF (Product & Price Information Format).

How do manufacturers benefit in receiving COGS & sharing PPIF data?

**COGS**
The primary reason manufacturers request COGs data is to compensate their sales people. Increasingly, manufacturers are adopting sales compensation programs that are based on what distributors sell, not what they buy. The manufacturers have come to realize that they need to reward sales people for growing market share, not just moving inventory from their warehouse to the distributors. Manufacturers also request COGS data to improve production planning by getting more insight into consumer demand and forecasting end user industries that are cyclical or seasonal. Without the data, the manufacturer is left using distributor purchases and estimating the industries impacting their production which may starve or over-inventory the channel. Using COGS data can improve planning accuracy thus minimizing supply chain costs.

COGS data can also show changes in the market that can be used to develop more effective marketing campaigns and determine ROI for both distributor and manufacturer. Manufacturers and distributors can work together to analyze what factors may have contributed to a specific trend seen in a specific branch/territory and develop a strategy that is mutually beneficial.

**PPIF**
Manufacturers also benefit by sharing product and price updates using a single standardized format. The PPIF allows manufacturers to provide updates to all distributors and OEMs in a single format, dramatically reducing costs to create and transmit these files. Because the PPIF is an ASCII format, no investment in specialized software is required. The PPIF also reduces the time for distributor to process, thereby receiving updated information in a timely manner.

How do distributors benefit in sharing COGS & receiving PPIF data?

**COGS**
Currently there is an inconsistency amongst distributors as to the benefits they see in providing data to a manufacturer. Distributors vary in how much, if any, information they are willing to share with their suppliers. This can be due to the cost of collecting and sending data and concerns on whether the manufacturing bases will use the data for its intended purpose.

Sharing this data also helps improve fill rates, providing few stock outs and improving overall customer satisfaction. Distributors also benefit from COGS data analysis by acquiring knowledge of the end
customers which improves lead generation, and the distributor will have a more knowledgeable supply base able to communicate in distributor terms. And similar to how COGS benefits manufacturers, if the distributor is not already using this data, there is the added benefit of using COGS data for their own marketing purposes.

**PPIF**

PPIF allows distributors to receive product and price updates from all suppliers in a single format, which dramatically reduces cost to process and upload files. Additionally, because PPIF is an ASCII format, there is no investment in specialized software. PPIF improves accuracy as it eliminates the need for distributors to manually re-key vendor data. So getting updated pricing and obsolete/substitute information into your system quickly minimizes product returns and debit and credit processing errors.

**How to Overcome Barriers to Sharing Information**

Using PTDA’s COGS format and PPIF can address distributors’ concern over cost of collecting and sending data to their suppliers. Additionally, the relationship between the distributor and manufacturer must be based on trust in order to alleviate concerns on whether the manufacturing base will use the data for its intended purpose. Distributors and manufacturers need to work together to understand each other’s business model, market strategy, and operations in the channel. Distributors and manufacturers can also refer to PTDA for a standard Non-Disclosure Agreement (NDA) that can be used as a requirement of providing the data.

Other options to overcome barriers in sharing information include both distributors and manufacturers imposing COGS and PPIF sharing as a criteria when evaluating new business relationships. Additionally, distributors can discuss the cost of collecting and communicating COGS data with their suppliers as manufacturers may be willing to cover this cost if they find the information valuable. As far as receiving PPIF information, distributors can reinforce to current suppliers they expect price updates in a PPIF format. Alternatively, manufacturers can promote PPIF adoption to their distributors.

In summary, sharing COGS and PPIF data increases the efficiency in the supply chain. Exchanging information provides an opportunity for the manufacturer and distributor to work together to improve processes and profitability up and down the supply chain.