



# How to...

## Make Special Orders Extraordinarily Profitable

An ERP program that makes accounting for special orders profitable and efficient.

by Jay Deakins

**A**s a building component manufacturer, you want to maintain healthy margins and provide customers with a high level of service. One way to boost your bottom line and satisfy customer demand is through the sale of non-stocked items. Properly done, these special orders generally turn faster and carry higher margins than regular sales, and they help your business become a one-stop shop. This idea carries extra weight for mid-sized players trying to up the ante on customer service and product offerings to compete with larger companies and big-boxes.

But merely offering special order service does not guarantee profitability. Connecting the dots between departments can be tricky with special orders, and miscues at any point in the process can cause costly problems for you and for your customers. So the question remains: How can you ensure special orders are not just a part of your business model, but a lucrative part of your business?

To start, you must have the proper tools in place to manage this process efficiently. Integrated accounting and Enterprise Resource Planning (ERP) software that is specifically designed for the building component manufacturing industry should link every aspect of your complex business, including purchasing, inventory, production, accounting, labor tracking, links to your engineering design software, and, of course, sales order entry. Through total business integration, an ERP system should make the special order process a seamless function.

### Expanding your building component business through the supply of non-stocked items requires that you treat special orders with special attention.

In a well-designed ERP system, the special order process begins with sales order entry. For instance, if XYZ Construction calls your salesman with an order for 100 stocked boards and 50 non-stocked moulding strips, the items would be entered into one sales order. The difference is that the boards have established part numbers in the system, and the moulding strips would automatically be assigned a special order part number to complete the sales order. Your salesman would then establish the price and margin (if a specific margin is not already mandated) for the moulding strips, and use the available line notes for a more detailed description of the part or your customer's preferences.

After the sales order is saved, your purchasing department would be automatically notified of the order, and then costing would be finalized and a purchase order (PO) issued. If your ERP system is properly integrated, this data should be updated in real time so all areas of your business can view the most current information. This gives your salesman, for example, the ability to compare his estimated cost of the non-stocked moulding strips versus the actual cost.

The inventory process of handling a special order is just as simple: Once the purchased item is received and verified against its PO, it is shipped to the location designated on the original sales order. Congratulations, XYZ Construction is now a happy customer.

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### at a glance

- ❑ One way to boost your bottom line and satisfy customer demand is selling non-stocked items.
- ❑ Special orders generally turn faster and carry higher margins than regular sales.
- ❑ An ERP system can help manage special orders and maximize profit.



# sensible

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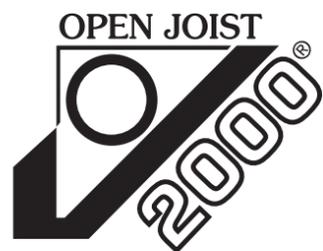
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**How to...**

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But you still need to determine the profitability of this particular order, as well as the rest of your special orders. The integrated reporting function of an ERP system should allow you to pull specified data from every department to form an unlimited quantity of configured reports. You should be able to report on special order items with, or separately from, stocked items to determine sales profitability by part number, category, salesman, or customer. You can also effectively manage special order POs for items that have not yet entered your inventory stream through a summary report according to PO number, vendor, sales order number, or part number. And, to ensure your special order inventory is moving, an "inventory onhand" report can be generated on a daily, weekly, or monthly basis, depending upon your level of volume.

What happens when the process doesn't work as planned? Say XYZ Construction cancels its order for the moulding strips. With user-specific controls in place, an ERP system should allow designated users to disconnect that item from its sales order and also charge back sales commissions. Once the item is disconnected from its sales order, you should be able to run "boneyard" reports to show all cancelled special orders and their ages, quantities and values. With this information, you can efficiently manage and move these items to minimize the cost of unsold merchandise. So congratulations again—XYZ Construction is still a happy customer, and you have maximized your company's profit.

Expanding your building component business through the supply of non-stocked items requires that you treat special orders with special attention. With an ERP system that provides a specific process for special orders, you can manage them not only as one-off problems, but as opportunities to pick up profit, satisfy your customers and fine tune your business processes. **SBC**

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