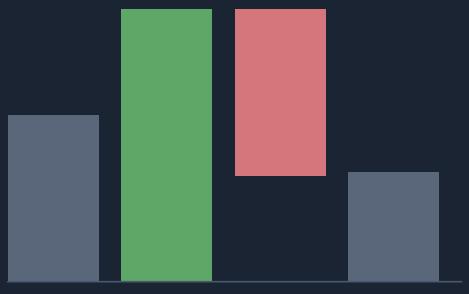
EXECUTIVE GUIDE

The Economics of Distribution Growth

Routes, customers, contribution and cash: the simple, practical arithmetic that sorts out distribution pain points

Sixty decisions in two books:
Run the Route, and Run the Business



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The Economics of Distribution Growth

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Understand. Measure. Engineer. Improve.

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Why this guide exists

Every distribution director asks the same questions. Which customers do we really make money on? Is another vehicle the answer? Can we afford the growth we have promised? Why did profit fall when sales rose? The answers are rarely hidden. They sit in a few numbers that nobody has put side by side: what the growth earns after the costs it creates, what resources it needs, and what cash it ties up.

This guide puts those numbers side by side. It uses arithmetic you can do on one page, applied to the decisions you actually make: adding a stop, granting a discount, buying a vehicle, extending credit, loading a distributor. Each chapter starts with the pain point an executive recognises, shows the numbers that explain it, and ends with the one action that sorts it out.

Its central proposition is simple. Growth deserves more investment only when its economics, its resource needs and its risks can be explained, and then tested.

The guide is in two books. Book One, Run the Route (Chapters 1 to 29), shows how to understand, test and fix a single route. Book Two, Run the Business (Chapters 30 to 60), takes the thirty-one decisions that become harder as a distribution business grows: the network, the team, the controls, the commercial engine, the funding and the shape of the business. Book Two begins on page 67.

The story in four numbers

One route, Route K, runs through the whole guide. Four numbers describe what happens when it grows.

The number	Route K	Where it comes from
Revenue growth	+20% (KSh 2.0 million to 2.4 million a month)	Chapter 1
Change in route contribution	−25% (KSh 40,000 to 30,000)	Chapter 1
Extra working capital the growth ties up	+KSh 220,000	Chapter 3
Discount that would erase the whole contribution	2%	Chapter 2

> **What the numbers say.** These four belong together. The route grew by a fifth, yet earned a quarter less, because it was running on a thin slice of 2% of revenue; the same 2% is the discount that would take that slice to zero. Meanwhile the growth absorbed KSh 220,000 of cash, more than seven months of the route's current contribution.

> **What it means for executives.** Revenue is the loudest number in the business and the least informative. The decision-quality numbers are contribution, the cash tied up and the room for error. This guide teaches you to ask for all three before you approve growth.

CHAPTER 15

Product Mix Can Change the Value of Growth

THE PAIN POINT we push the high-margin line while the vehicle is full of the wrong goods.
THE DECISION which products and combinations to prioritise.

Products differ in margin, weight, volume, handling, return risk and working capital. A shift in mix can change contribution even when total sales stay constant. Examine what products earn and which scarce resource they consume.

Equal revenue, KSh 100,000 each	Product A	Product B
Gross margin	10%	20%
Gross profit	10,000	20,000
Traceable handling and delivery cost	2,000	5,000
Contribution before common route cost	**8,000**	**15,000**
Pallet positions occupied	1	3
Contribution per pallet position	8,000	5,000

What the numbers say. B earns 87.5% more in total, but A earns 60% more per pallet position. Neither ranking is wrong; they answer different questions. Which one governs depends on whether pallet space, not demand, is what limits sales.

What it means for executives. Before telling the sales team to push the high-margin line, identify the binding resource: space, vehicle time, working capital or demand. A bulky line is attractive when capacity is spare and expensive in a peak.

Demand and dependencies

A product cannot be optimised apart from the order it helps win. Some lines attract visits, complete a customer's purchase or enable a more valuable bundle. Establish that with evidence rather than assuming every low-margin line is strategic. A high-margin product with slow turnover can absorb substantial cash (Chapter 20), and a mix change can affect stock availability, returns and payment terms.

Management practice

Calculate product gross profit, traceable service cost and contribution per limiting resource. Run a route-level scenario for the proposed mix, with quantities that match real demand and available stock. Use the result to guide selling priorities, assortment and loading, avoiding a blanket instruction that ignores customer needs.

Executive review: What resource limits sales today? Which mix earns most within that limit? What customer demand supports it?

Practical action: compare five material products on contribution, load requirement and stock commitment.

COMMON MISTAKE	NUMBER TO ASK FOR	RULE
pushing the high-margin line when space is binding.	contribution per scarce resource.	rank by the binding resource, not margin percentage.

Sales are up.
Profit isn’t.
Cash is tight.

Distribution directors rarely lack data. They lack the few numbers that explain why growth costs more than it earns. This guide puts those numbers side by side: what growth earns after the costs it creates, what resources it needs and what cash it ties up.

INSIDE

- 60 chapters in two books and thirteen parts, each opening with a pain point executives recognise
- Book One runs the route. Book Two runs the business: thirty-one decisions that get harder as you grow
- Two running cases, Route K and K Distributors, so every example connects to the next
- Rules of thumb and the three numbers to ask for in every proposal
- Twenty-one detachable worksheets and an Excel workbook

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