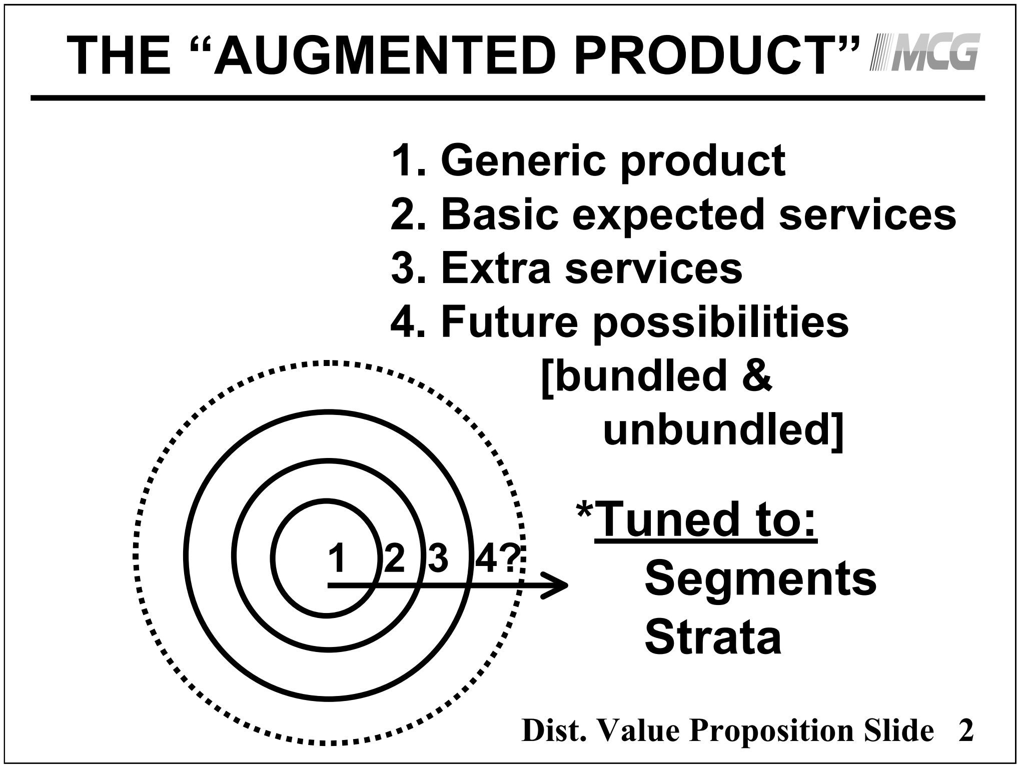
A Distributor’s Total, Unique, Product-Value Proposition



This is a classic business model concept that dates back to the mid '60s that explains how there is no such thing as a "pure commodity for a price." Here's the supporting logic:

The #1 core is the tangible, "commodity"; e.g., pounds of apples still on the trees in the orchard.

The #2 circle that enwraps the commodity represents basic, expected services that all suppliers would do – pick, pack, ship, etc. But, as soon as human beings are involved in the total valuing creating process, there can start to be differences in quality, consistency and variety of service step performance. Different niches of customers will value some service brilliance metrics more than others. The post office, for example, charges half the price of FedEx for over-night letter delivery and only has single digit market share. But, a significant percent of the time, the letter isn't delivered on time.

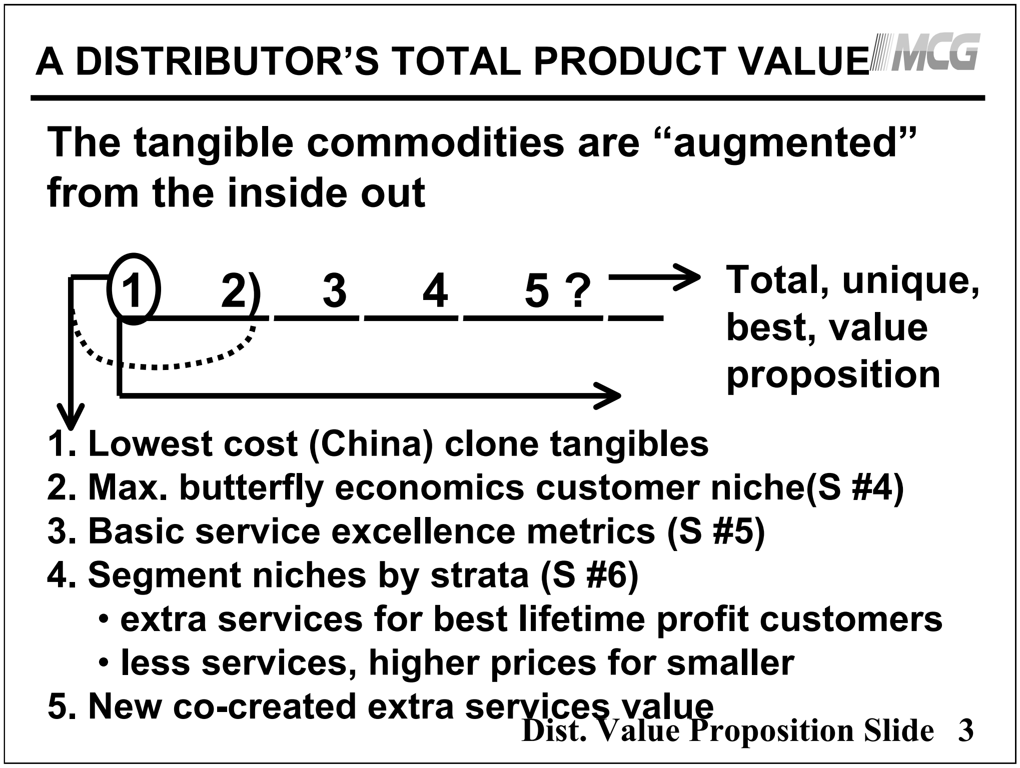
Circle #3 represents extra services that a supplier might provide either bundled or un-bundled for a fee to different strata of customers. Big rollers at casinos, for example, get a graduated schedule of complimentary benefits depending upon the stakes and hours of play.

Circle #4 assumes that there will always be new premium or varying niches of customers for whom a supplier can identify unmet needs and co-create solutions that the customer values more than it costs the supplier, so the supplier can make a profit on the incremental refinement.

The product value must be built from the inside out. Don't expect to get rewarded for any services if the commodity isn't equally, sufficiently excellent to the competition's. In a similar way, don't offer 3 and 4 services if you can't get the right stuff to the right place on time (circle 2 basic service excellence).

Not all niches of customers will want the same total product-service formulation. Nor will all customers within a niche value a given formulation the same, so segment niches further buy how they value and pay for service.

Once we have tuned our service metrics to a niche and achieve distinct consistency, the intangibles must be sold through "automated reminders" that make customers notice the services, their quality and their value. Otherwise, most humans will tend to over focus on the tangible commodities and "price" instead of "total procurement cost" made possible by focused, quality service intangibles.



This is a refinement of slide #2 for distributors. The additions to this slide over slide 2 are:

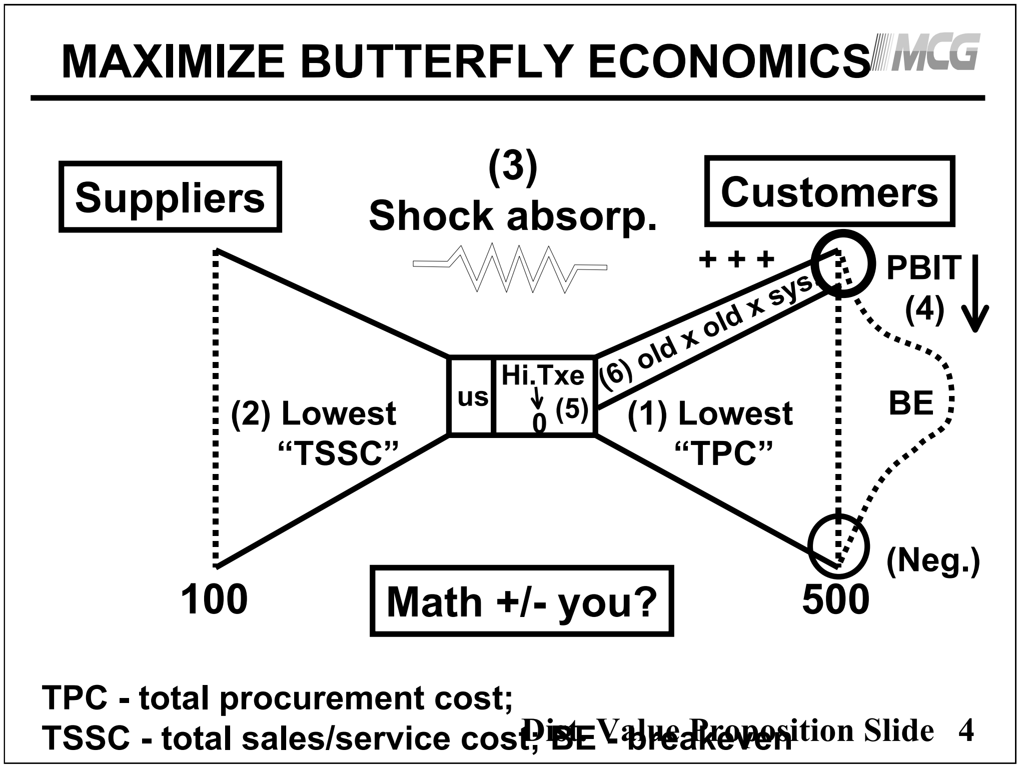
1. For circle one, there is a big trend for more tangible goods to be manufactured in China for dramatic differences in price. So, distributors must have the lowest landed cost, global commodities in stock.

2. To maximize "butterfly economics" see slide 4 and its comments.

3. Once we have the best one-stop-array of items with highest competitive fill rates for a given target niche (part of maximizing butterfly economics), then we have to define, measure, achieve and sell the procurement cost benefits of basic service excellence. For more on this total challenge see all modules in section 4 of our video tape, "High Performance Distribution Ideas for All" and slide #5.

4. To sell our products at a range of prices and terms that allow for profits, we must sell different strata of customers in different ways. Slides 6 and 7 from video module # 3.6 illustrate this.

5. This step is really the same as #4 in the "augmented product" slide.



All physical goods distributors exist for 3 basic reasons and can grow win-win supply systems with best, right, smart customers. Here's what the numbers on the slide refer to:

1) Distributors exist for their customers to lower ten of the 11 elements of "total procurement cost"(TPC) more than they raise the 11th element, price. This slide is assuming that most customers could buy goods direct from 100 potential suppliers instead of the 1 distributor, but in greater quantities on a less timely basis each with its attendant set of buying and selling transaction costs.
2) Distributors exist for their suppliers to service end-users at a lower total sales and service cost (TSSC) than if the suppliers elected to sell the 500 customers direct.
3) The distributor's inventory and people serve as shock absorbers for atypical problems that suppliers and customers may have. The distributor acts as an economy-of-solution, pain-removal, outsourced service provider. While the problem may be unusual for a given supplier or customer, the distributor sees the same type of problem often from a portfolio of similar suppliers or customers.
4) If we sort the 500 customers from highest PBIT contributor to biggest PBIT loser, and we study what items the best customers buy, we find that best customers have helped us unwittingly put in our best turn x earn (#5) items into a local distribution center.
5) Our best turn-earn products are bought by our best customers that share a common need for a specific one-stop-shop array of items.
6) High PBIT customers are then a by-product of bigger customers buying a lot of our best turn x earn items on a repeat, systematic (more or less) basis that generates above average order sizes. This reduces the fixed transactional and delivery costs as a percent of a bigger amount of gross margin dollars per order.

Some big questions are:

- Out of our top 10 PBIT customers what sub-niches of customers that buy the same 1-stop-array of items can we identify?
- How do we protect these accounts and sell more old items to them on a greater win-win basis that lowers both their TPC and our TSSC?
- What 5 best, target accounts within this same niche can we sell on a total team basis?
- How do we generally retain and penetrate all of the accounts within this niche with basic service brilliance? (slide 5)

BASIC SERVICE METRICS → TPC BENEFITS

1. Fill-rates
2. 100% same day receiving
3. Sufficient (+) order cut-off time
4. Sufficient (+) delivery response time
5. Zero errors in orders
6. 100% on-time delivery
7. Call backs on order changes
8. Heroic recoveries on service failures

(1-2) One order placement & trx'n costs

(3-6) No down time; less inventory carrying costs; no expediting costs

(7) No surprises; time to service elsewhere

(8) Min. & offset service failure costs

TPC - total procurement costs

Dist. Value Proposition Slide 5

The left-hand side of this slide is "the big 8 of service excellence". The why's and how to's are covered in section 4 of our High Performance video. A few extra comments:

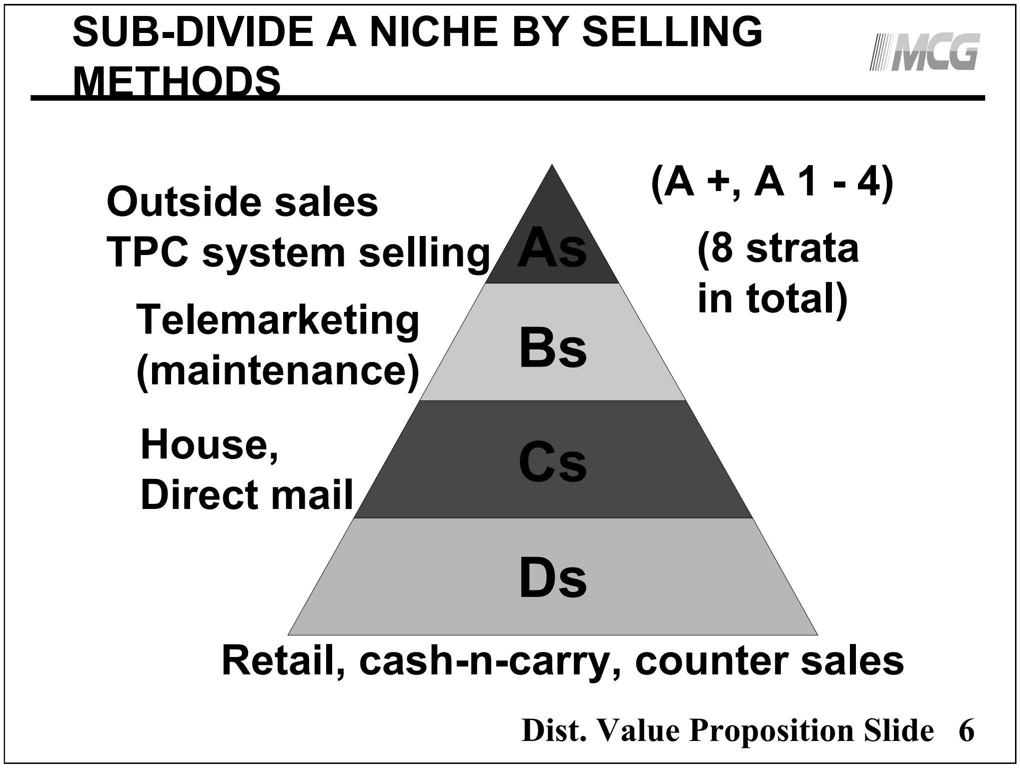
*100% same day receiving by cross-trained location personnel allows inbound stocked out, fast moving items to be in stock for next morning orders. This effectively boosts fill-rates, order size, order fulfillment productivity and customer satisfaction.

*Different niches of customers will need different cut off times for ordering and different response times for how quickly they get the goods. Smart distributors listen to the different customer niche needs and decide if they can be perfect for each niche on these two dimensions.

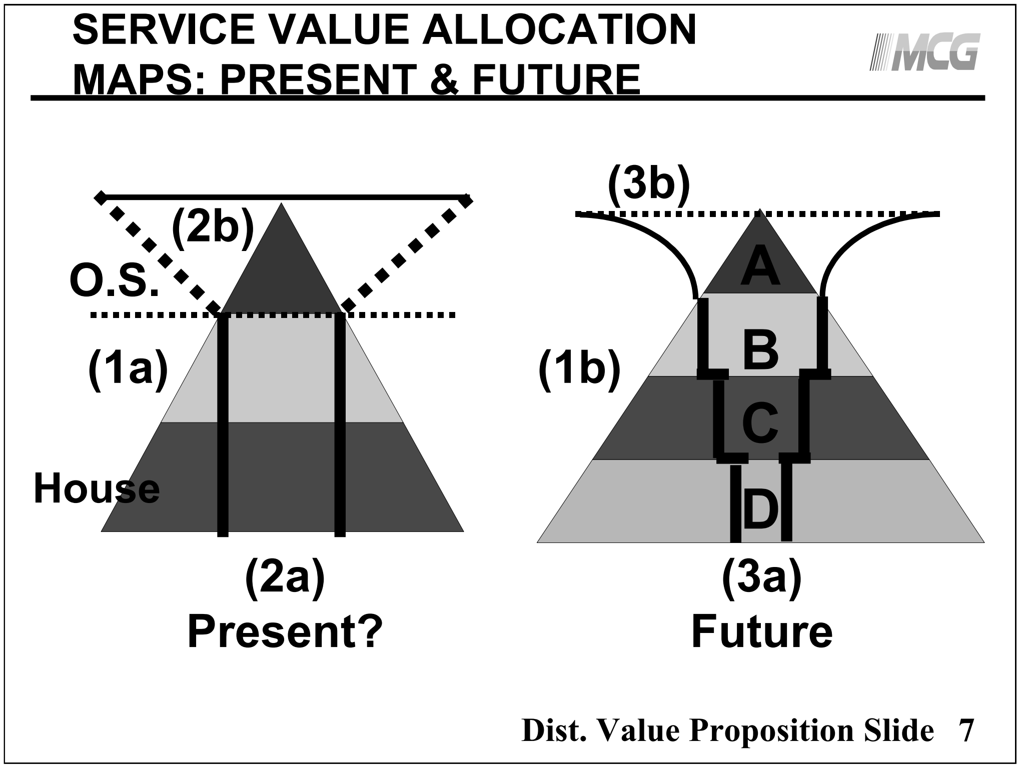
*A company can not have zero errors and 100% on time delivery if there isn't some degree of perfectly cross-trained personnel that is willing to float along with order surges that go through the order fulfillment process. Video module 4.7 explains the why's and how's of learn-n-earn certification programs to insure this service excellence flexibility.

*If there is a service failure or one is detected before the customers experiences it, then an heroic recovery is a smart total economic policy. See article 3.5 and video module 4.8

The right-hand side of the slide connects the big 8 #s with TPC reduction benefits. For selling the 11 elements of TPC see articles 4.2 and 4.3 or video module 4.11 through 4.13.



This slide suggests that it is vital that all customers within a common classification be further subdivided by what type of proactive marketing/selling mode they can be pursued. The next trick is defining how much margin dollars per month an account needs to hit and how soon to justify what level of selling. I believe that outside sales people, for example, should call on most accounts at least once a month to sell TPC reduction systems of some sort. Given the cost of a sales call, the accounts should average $400 or more per month in margin which makes a huge percent of accounts currently called on by sales people below that threshold.



This slide suggests that most distributors are guilty of offering too much service value for too generous a set of terms to B-D strata causing them to be break-even if not losing accounts. This over servicing of B-D customers then makes it impossible to super team-focus on the 10 accounts per location (AAA+++) that will make all the difference over the next 5+ years. Lots more on super serving these accounts in our video and our strategy paper available via e-mail from karen@merrifield.com.