"Good To Great"

Distribution Results

In 14 slides

PRODUCTIVITY LEVELS

MCG

	Unit	Dept'l	Pro-cess	Strat-egic
Efficiency	Incen-tives (1)	Cost Cut (2)	? (4)	☆ (3a) (3b) (3c)
Effectiveness	←	←	←	
Transformation	?			?

2

WHAT MOST DO:
1. Ask about incentive plans to make people work harder, more "efficient"(at the same things)
2. How to cut costs at a departmental or functional level.

WHAT WE SHOULD DO:
3. a. Identify where we make our money by customers first and products secondarily.
   b. Then, we can re-define, measure, achieve and sell service to one niche of customers at a time with extra services and better prices and terms allocated by A,B,C,D strata of customers within a niche.
   c. Better to sell everything to someone with a future that values our service excellence formula than selling a little bit of too many products to too many customer types that don't fully value or pay for the standard, mediocre service provided.
4. Then alignment efficiencies & effectiveness can happen on a self-organizing basis at all levels: inter-departmental processes (#4): departmental (#2) & individual (1).

PS DEFINITIONS

"efficiency": doing the same activities faster, with less waste and/or for less cost
"effectiveness": doing the right things for the right customers at the right time which takes foresight and strategic allocation of limited resources
"transformation": accomplishing the same general objective in a new process way

STRATEGIC PBIT/CUSTOMER STEPS: MCG

1. **Read articles at www.merrifield.com numbered: 2.15, 2.3, 2.19, 2.19 Case Study**

2. **Rank accounts to find:**
   - ➤ **Top 40% → approx. 150% PBIT**
   - ➤ **Bottom 60% → -50%**

3. **Follow the plays described in articles**

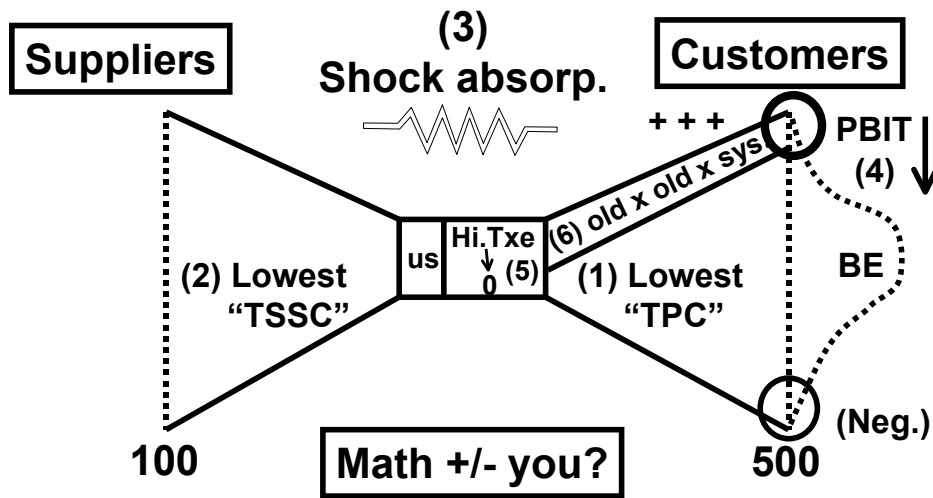4. **Define your "strategy maps" for # 1 niche**

PBIT - profit before interest & taxes

3

To identify our historic #1 niche of customers in which we make 120 to 150% of our profit before interest and taxes (PBIT), read the www.merrifield.com articles in point #1 above. For a 23 page document on the why's and how to's of doing customer-centric re-defining of a distributor's core niche request the "Reinventing Core Business" strategy paper from karen@merrifield.com.

To describe to all employees where the company is strategically going, you will need maps for the journey. Slides #ed 3 - 9 are "strategy maps" that will get everyone thinking and eventually moving in a new, more effective direction. These maps can work for all mature distributors that achieve 80% or more of their volume on established commodity products sold to established customers. Every location (even within a chain) is apt to have a different historic niche hiding within their portfolio of customers.

MAXIMIZE BUTTERFLY ECONOMICS *MCG*

Suppliers

(3)
Shock absorp.

Customers

+ + +

PBIT ↓
(4)

us | Hi.Txe ↓ 0 (5) | (6) old x old x sys

(2) Lowest "TSSC"

(1) Lowest "TPC"

BE

100

Math +/- you?

500

(Neg.)

TPC - total procurement cost;
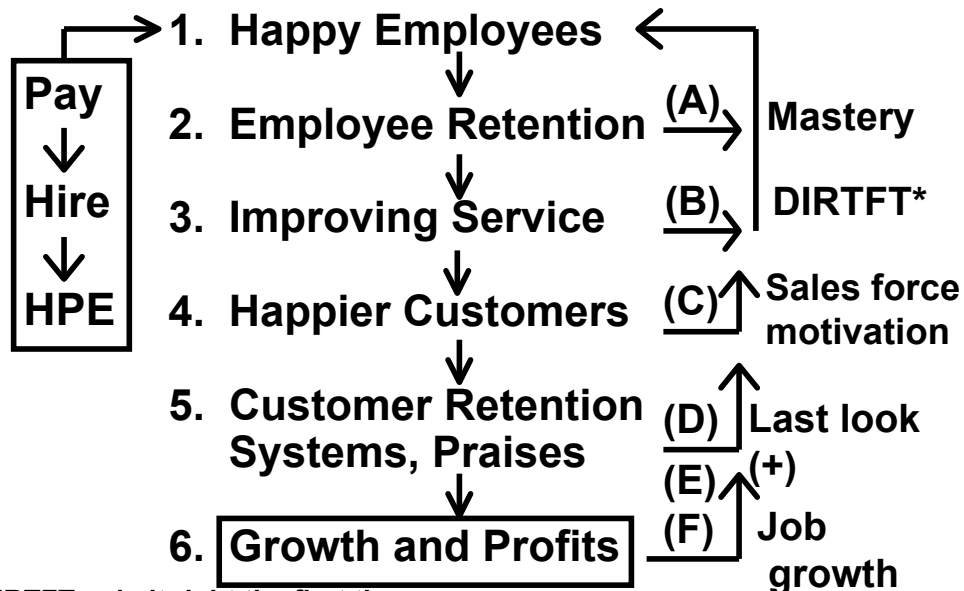TSSC - total sales/service cost; BE - breakeven

4

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)

COMMON STRATEGY MAP #2 ⫶MCG

1. **Happy Employees**

Pay → Hire → HPE

2. **Employee Retention** (A) → **Mastery**

3. **Improving Service** (B) → **DIRTFT***

4. **Happier Customers** (C) ↑ **Sales force motivation**

5. **Customer Retention Systems, Praises** (D) **Last look** (E) **(+)** (F) **Job growth**

6. **Growth and Profits**
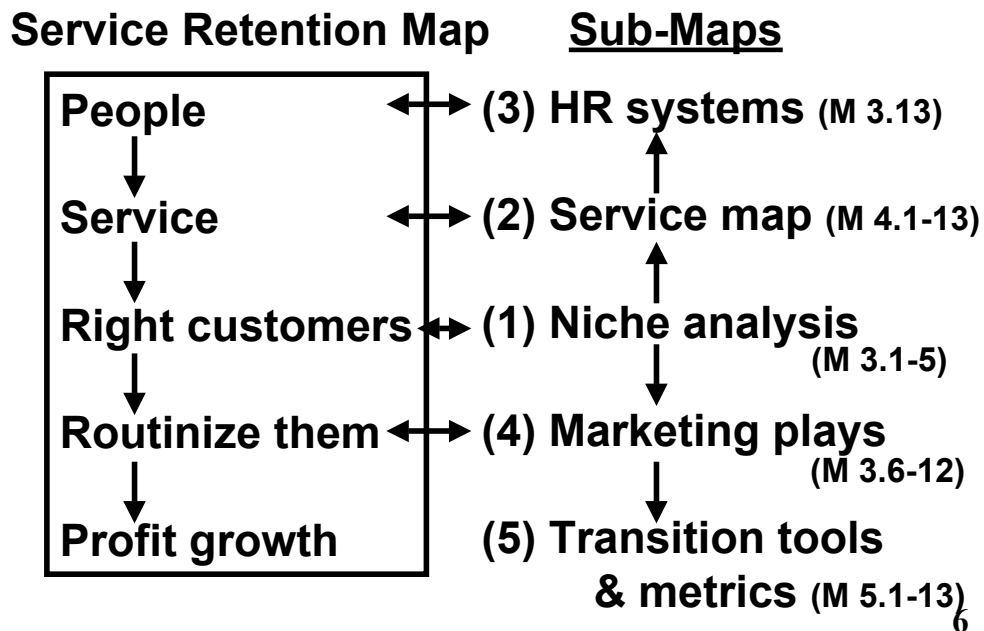
*DIRTFT = do it right the first time
*Video module #3.12

5

This is the general formulaic slide for better: people, service, retention (of both people and customers) and profits. It is describe in detail in both article # 3.7 and video module 3.12. The lettered A-F feedback loops are all positive reinforcing ones if we can hire better people and keep them. They are negative if we hire weaker employees for less and have turnover of front-line employees.
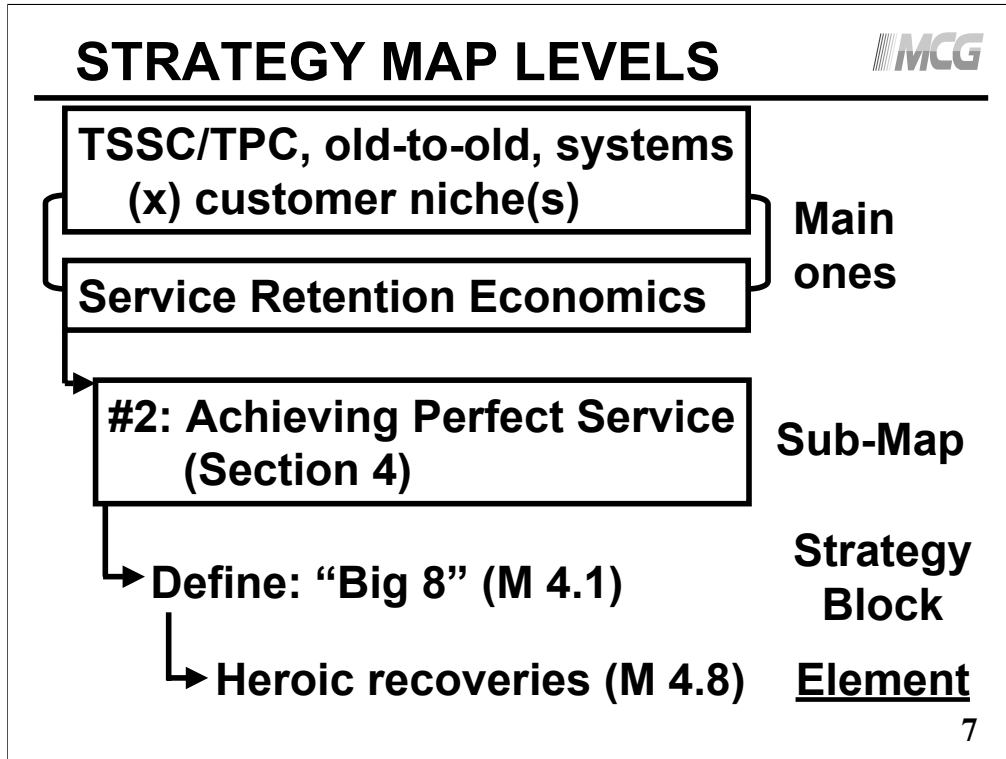
This master strategy map begs questions about: personnel policies to get and keep good people; how to define, measure, achieve, sell and get rewarded for service value; for what niches and niche-segments of customers; etc. The answers to these questions are identified in slide 6.

"SERVICE RETENTION SUB-MAPS" ⫽MCG

Service Retention Map   **Sub-Maps**

People ⟷ **(3) HR systems** (M 3.13)

Service ⟷ **(2) Service map** (M 4.1-13)

Right customers ⟷ **(1) Niche analysis**
                                    (M 3.1-5)

Routinize them ⟷ **(4) Marketing plays**
                                    (M 3.6-12)

Profit growth   **(5) Transition tools**
                         & metrics (M 5.1-13)
                                                    6

To support service-customer retention, we will need sub-strategies for:

1) Targeting & pursuing one niche of customers at a time? (slide 2)

2) Defining, achieving & selling "service" for the #1 niche. (Modules 4.1 - 4.3 in the video "High Performance Ideas for All". See merrifield.com for details. Also see articles in Section 3 at the site.

3) Getting, hiring, keeping great people to generate great service. (slide 8)

4) Selling, installing & maintaining buy-sell systems. (Module 4.10 - 4.13)

5) Managing changes successfully. (Module 5.1 - 5.13)

STRATEGY MAP LEVELS //MCG

| TSSC/TPC, old-to-old, systems (x) customer niche(s) | **Main ones** |
| Service Retention Economics | |

#2: Achieving Perfect Service (Section 4)   **Sub-Map**

Define: "Big 8" (M 4.1)   **Strategy Block**
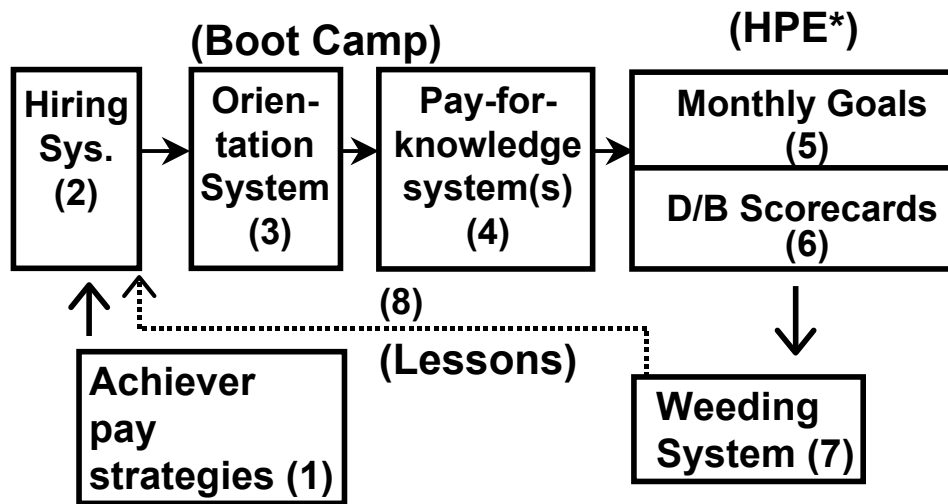
Heroic recoveries (M 4.8)   **Element**

7

Strategy maps can be confusing to front-line service employees. Maps can be broken all the way down to "elements" which can be learned one at a time. Each element can then be connected back up the hierarchy.

By example, this slide takes one of the sub-maps for the service retention main map, achieving perfect service, then goes down to one of "perfect services strategy blocks", the "big 8" (service metrics). Then it drops down to just one of the eight elements of service metrics, "heroic recoveries".

How to package all 4 levels of high performance distribution/service management into an educational solution/system is the subject of slides 10-14.
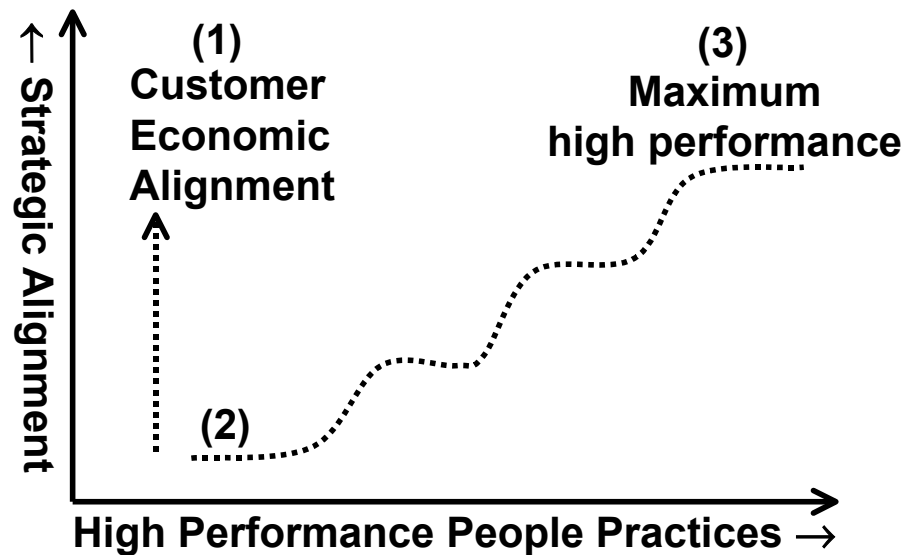
UPGRADE ALL PERSONNEL SYSTEMS *MCG*

(Boot Camp)   (HPE*)

Hiring Sys. (2) → Orien-tation System (3) → Pay-for-knowledge system(s) (4) → Monthly Goals (5) / D/B Scorecards (6)

(8)
(Lessons)

Achiever pay strategies (1)

Weeding System (7)

*HPE - high performance environment; D/B - database

8

Slide 6 that illustrates how the service retention model needs support from 5 sub-maps. Sub-map #3 is entitled "HR systems". This slide breaks sub-map #3 into 8 "strategy blocks". The why's and how-to's for all 8 blocks are covered in 6 hours of an audio taped, all-day seminar entitled "Hiring, Training, Motivating and Keeping the Best Employees". This tape set is available from MCG for $95. (Users have very much enjoyed the content and delivery during drive time!) A superficial review of these 8 "blocks" is in article 5.7. Here are additional references to both articles and video modules for a number of the 8 blocks:

1. Achiever Pay Strategies: article 5.2; video modules 2.1 - 2.4, 4.7.
2. Hiring system: article 5.6 superficially (great detail in the audio tapes).
3. Orientation: (most of the video for all new employees).
4. Pay for Knowledge systems: video module 4.7.
5. Monthly Goals: video module 3.14.
6. Database Scorecards: articles 5.5, 2.7; video modules 5.3 – 5.6.

7/8 Weeding System + Learning to try again smarter: video modules 5.7, 5.8 generally; otherwise, audio tapes.

MAKE IT ALL SIMPLER (?) //MCG

(1) Customer Economic Alignment

(2)

(3) Maximum high performance

Strategic Alignment ↑

High Performance People Practices →

9

If you are so far overwhelmed, don't worry about it all at once. If you can define your #1 niche and most important core and target accounts along with re-tuned service metrics (Big 8) all up on the wall, the rest of these total strategy pieces fall in place. Just listen to what your core customers and employees tell you they need and do it.

Some more specific steps? Define for all employees:

a. the # 1 niche of customers (lots on this in the "Reinventing Core Business" strategy paper e-vailable upon request from karen@merrifield.com; also, video modules 3.3 to 3.7).
b. Everyone memorizes the 5 most profitable customers in the #1 niche per location along with the 5 most important target accounts (video modules #3.7).
c. Measure GM$/employee for 12 months trailing as an index of future economics for all stakeholders (article 2.16; 2.4).
d. Measure PBIT/customer by niche strata (Strategy paper; video module 3.3; article 2.16) .
e. Define, post the "Big 8" (article 3.1; video modules 4.1 to 4.9).

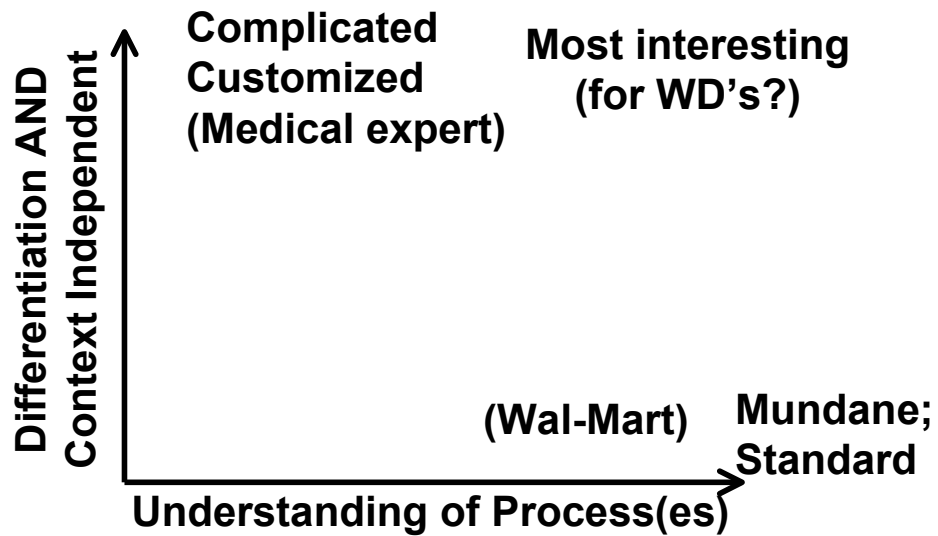Then, listen and enable.

STRATEGIC SERVICE TRAINING ░MCG

Breakthrough ingredients

1. **Follow strategic service truisms (strategy maps)**

2. **Adapt all to wholesale-branch realities**

3. **Combine custom flex (+) standard service process(es)**

4. **Inter-connected, bite-size video lessons**

5. **Pragmatic educational delivery system**

6. **Platform from which to build**

10

1) See slides 3 - 9 for distribution, service strategy maps.

2) Distribution is essentially a simple, local, service intensive business. Many management ideas have to be simplified, scaled down and explained in distribution service metrics and terms in order to make sense for front-line employees.

3) Systems are vital to any business. In distribution businesses there needs to be a lot of standard basic process activity as well as customized extra service flexibility executed consistently for better customers. How do we help employees be smarter than they are with guidelines or knowledge management building blocks?

4) How do we get all employees up to high performance service understanding and fluency as quickly, affordably and flexibly as possible? Web-based training on demand is nice, but most front-liners need to take ideas and discuss them with other local folks who bring in lots of company specific examples.

5) The "High Performance Distribution.." video offers 53 modular sessions each with an "ideograms" that all inter-connect, but any company can modify and add to them. So, the video is meant to be a base to build from.

HPS META-LANGUAGE (1) ///MCG

Complicated Customized (Medical expert)

Most interesting (for WD's?)

Differentiation AND Context Independent

(Wal-Mart)

Mundane; Standard

Understanding of Process(es)
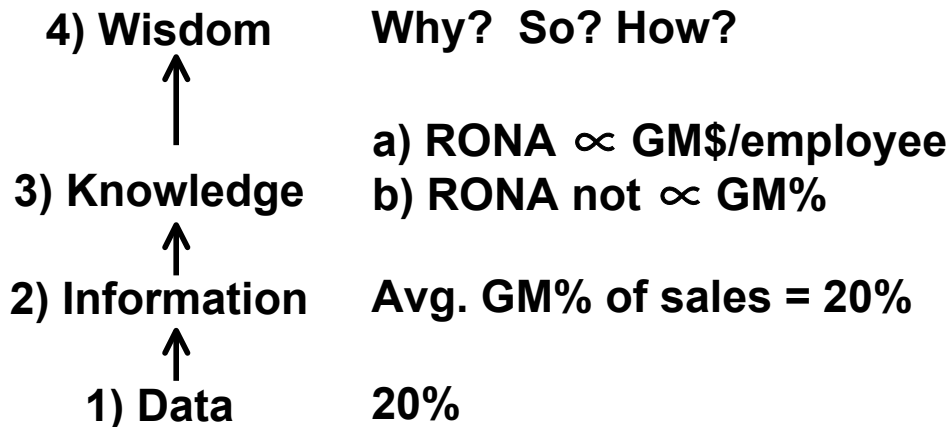
HPS - high performance service

11

(A meta-language is a short-hand language to describe a more complicated language.)

This grid tries to illustrate that local, great service distribution companies must blend standard service processes with a lot higher level customized services. No one is further to the right along the horizontal axis than Wal-Mart. The best distributors that partner the best customers with integrated supply deals would be way up in the Northeast corner. But, how much collective service intelligence is required to do this perfectly for many customers on a profitable and consistent basis?

"Knowledge Management"

4) Wisdom   Why? So? How?

↑

a) RONA ∝ GM\$/employee
3) Knowledge   b) RONA not ∝ GM%

↑

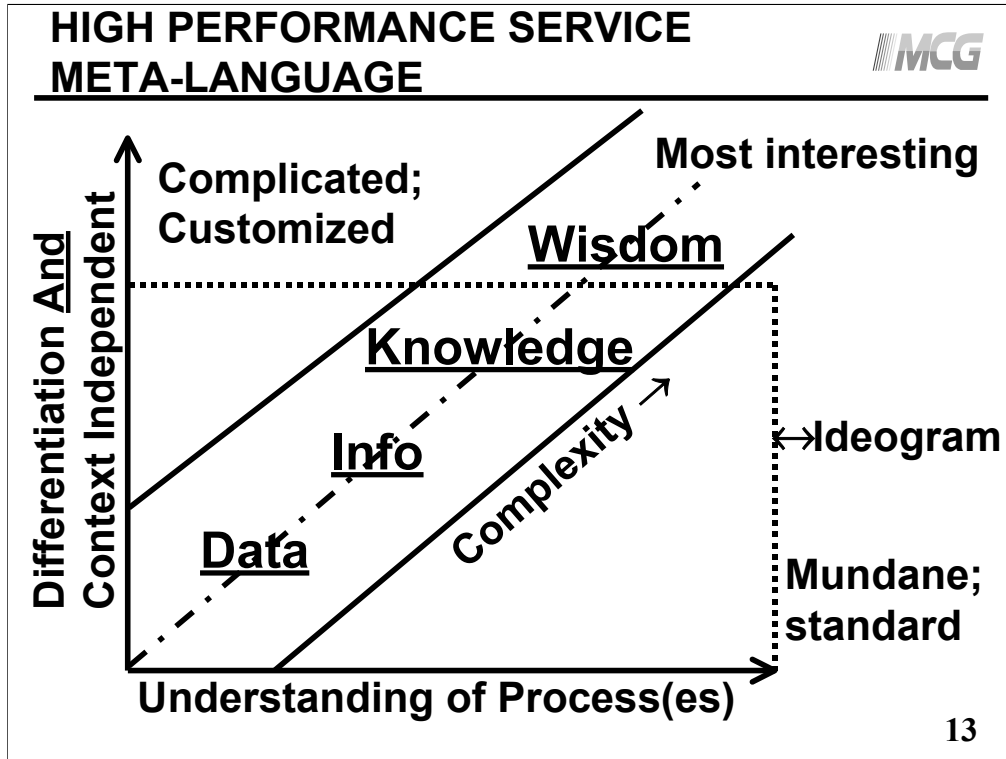**2) Information   Avg. GM% of sales = 20%**

↑

1) Data   20%

12

One way to break down the vague idea of "knowledge management" which is the codification, sharing and re-duplication of higher level understanding is to break it down into four levels from "data" to "wisdom".

1) A piece of <u>data</u> is "20%" which means nothing out of context.

2) The data has more <u>"informational" meaning</u> if we find out that a distributor's average GM% as a percent of sales for the year was 20%.

3) <u>Knowledge</u> starts to explain why the information is good or bad and why it happens, what causes it. In this case, we find out that for a distribution chain there is no correlation between how high the GM% for a branch is and its "RONA". Instead within the chain, there is a near perfect correlation between how high the RONA is for the branch and how high the gross margin dollars per full time employee are on an annual basis.

4) <u>Wisdom</u> might next explain all of the strategies that go into making some branches work a lot smarter with higher perceived value to customers to cause highest GM\$/employee ratios to in turn support highest RONA scores.

Wisdom also can explain the boundaries for when one set of successful rules stops or starts applying and when change in business conditions require new strategies, tactics and metrics to succeed.

HIGH PERFORMANCE SERVICE META-LANGUAGE

This slide puts the three building slides (10-12) all together. The biggest challenge now is how to create bite-sized, learning concepts, diagrams, power phrases that can help to make employees educationally smart about operational and service excellence.

Do all of the employees know and respond to concept terms such as: "core accounts, Gazelles, lead into gold accounts, the Big 8 of service excellence", etc. These are examples of the HPS meta-language phrases in our video.

HPS META-LANGUAGE EXAMPLES ⫽MCG

Ideograms: Pictures, Phrases

1. **Retain(+) most profitable (core) accounts**

2. **Team sell ideal Gazelles**

3. **Turn "lead accounts" into gold**

4. **Be "commonwealth capitalists"**

5. **Profits = cost of your future (cycle)**

6. **Kinetic chain (x) any initiative**

14

These are examples of summary phrases for ideograms in the High Performance video.

Employees can share one phrase to get across an hour of training that helps higher level communication, execution and problem solving.

Through modular video training delivered affordably at each location in 1 hour sessions, all employees can become high performance service experts.