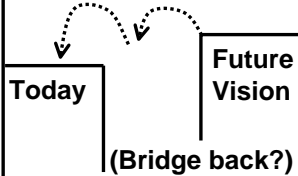




<h1 style="margin: 0;">HIDA</h1> <h2 style="margin: 10px 0 0 0;">Executive Conference</h2> <p style="margin: 10px 0 0 0;">Aventura, Florida March 14, 2006</p>	<h2 style="margin: 0 0 0 0;">Re-Inventing The Sales Force</h2> 
--	--

Notes:

<h3 style="margin: 0;">WHO'S HERE?</h3>	
<p>Species: Acute; Physician; Lt. Care, etc.</p> <p>Selling Style:</p> <ol style="list-style-type: none"> 1. Commission sales force; geographic areas 2. New age <ul style="list-style-type: none"> -- maintainers & penetrators -- paid on increase in "profits" -- team sell "strategic" accounts <p>What questions?</p>	
<p>2</p>	

<h3 style="margin: 0;">OBJECTIVES/EXPECTATIONS</h3>	
<ul style="list-style-type: none"> ▶ No recipes ▶ Future is here ▶ Questionate to innovate <ul style="list-style-type: none"> ▶ Lots of good ideas → 1 - 2 great ones ▶ Path from & for <u>your</u> active accounts ▶ Some summary guidelines 	
<p>3</p>	

SUB-TOPICS *IMCG*

1. History of “demand replenishment” (skim)
2. Assess our current selling effectiveness
3. Segment & reserve customer niches
4. The innovation imperative
5. Fail forward in an innovative culture

4

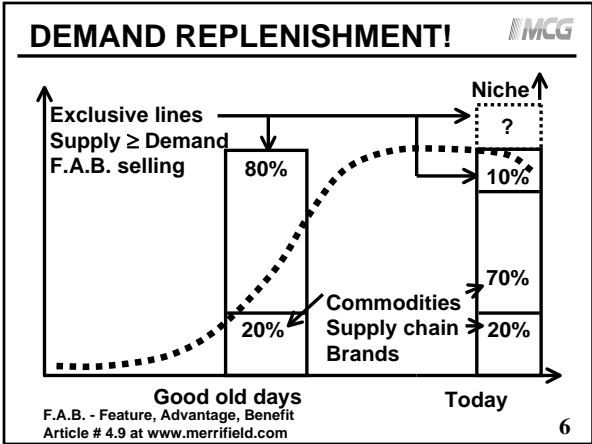
Notes:

Part 1 (More in PM Session)

History of Demand Replenishment

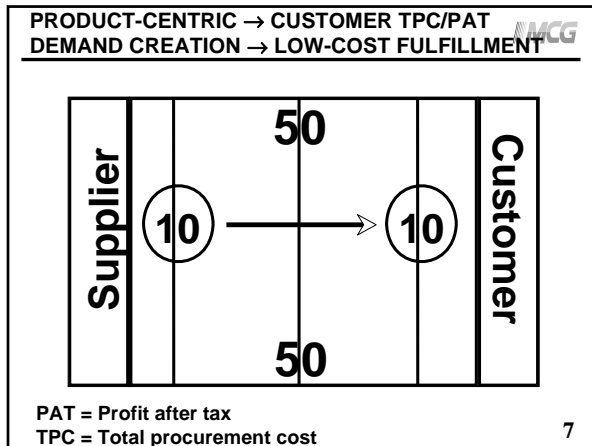
Drug, Grocery, McD’s distribution (1980’s)
 Quick response (1983 on)
 Vendor managed inventory (VMI) (1960’s on)
 Integrated supply (1995 on)
 Dotcom dis-intermediation disaster (1995-2000)
 GOOGLE co-op strategy (?) (2005 →)

*McD’s - Macdonalds

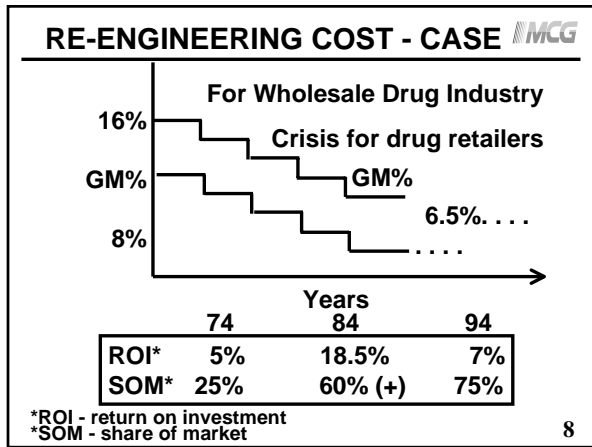


Presentation by:
 D. Bruce Merrifield
 email: bruce@merrifield.com

Merrifield Consulting Group, Inc.
 101 Black Oak Place
 Chapel Hill, NC 27517
www.merrifield.com

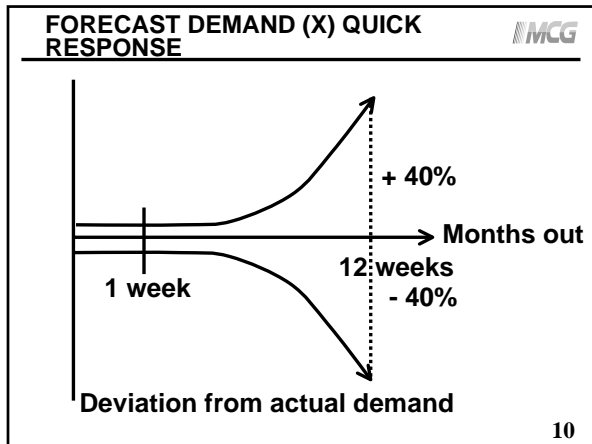


Notes:

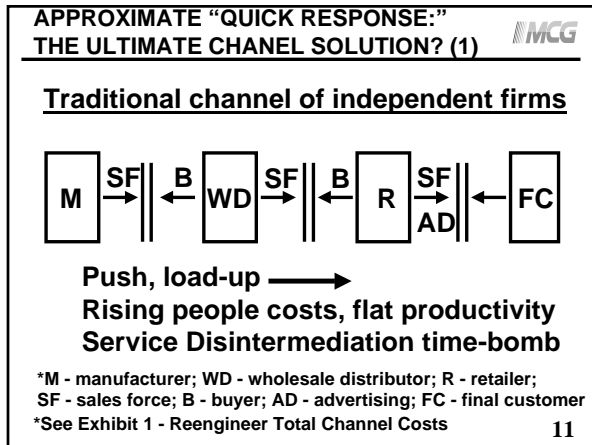


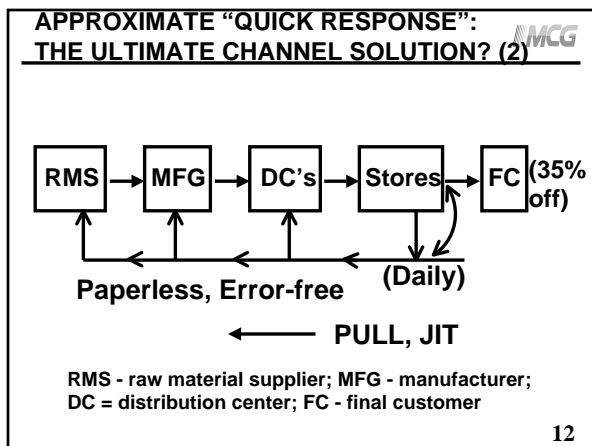
WHOLESALE DRUG SERVICE CHANGES

1974	1984
Salesperson	Customer Uses
Inside Sales	Bar-code Wand
Data Entry	Phones-Computer
Mistakes	
20 - 30% share	100%
Emergency buys	System buys (order size up 10x)
2%/Net 10th	N-15 days
16% GM	8% GM



Notes:





WAL-MART QR BENEFITS MCG

1. Reduce inventory 50%; double turns
2. Fillrates 90% → 99.6% + 9.6%
3. Added SKUs 20,000 → 40,000 → 100k
4. Same store sales '85 to '90 +73%
5. Reduce operational costs -5%
6. Cross-docking in DC's

13

Notes:

WAL-MART CASE LESSONS (1) MCG

- '83 K-Mart & J. C. Penney passed on QR
- '92- on 90% of grocery retailers passed too
- 03/93 K-Mart apologized to suppliers

Can two parties:

- Flowchart what is & what could be
- Tie two champions together
- Share both change costs and net savings ?

14

WAL-MART CASE LESSONS (2) MCG

1. What does higher fill-rates on an even greater range of one-stop-shop items do for:
 - Customer satisfaction & retention
 - Average purchases per visit
 - Average payload/stop of truck in distribution
2. Master distributors → turn-earn \$ (+) “fill-rate economics”

15

FINAL MARGIN LEVELS?

MCG

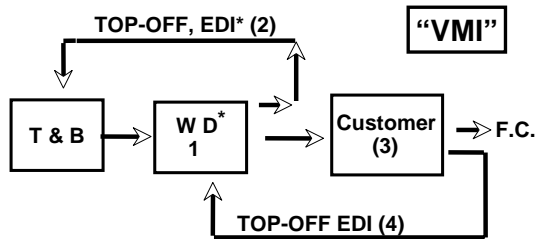
- 6.5% Drug, grocery & computer WD's
- 5% "Good" captive distribution center (DC)
- 4% (+) McDonald's suppliers
- 3 - 4% True cost of Wal-Mart DC's

16

Notes:

THOMAS & BETTS APPROXIMATING "QR"!

MCG



*EDI - Electronic Data Interchange

*W D - Wholesale Distributor

17

THOMAS & BETTS CONCLUSIONS

MCG

- The master distribution channel provided breakthrough benefits
- Thomas & Betts': order entry costs ↓
total freight ↓
- WD's: next day, pool-lane delivery
add last hour needs did
switch to electric order entry
for fast/last hour delivery

18

**Achieving Win - Win,
Integrated*, (Sole)
Supply Contracts**



*Implies same degree of paperless automation + outsourcing of internal supply activity

Notes:

THIS TREND ISN'T NEW



1. McDonald's and Martin-Brower - 1956
2. Bolton at Carborundum - 1964 (MRO)
3. Xerox prime vendors - 1978 (OEM)
4. Ryder inbounds at Saturn - late '80's
5. Commodity MRO stuff - '95 on

Fewer vendors = Lower T P C!

20

**PUBLICIZED SUPPLIER CONSOL'N
PROGRAMS**



<u>Firm</u>	<u>Start</u>	<u>End</u>	<u>% Change (+)</u>
Xerox (OEM)	5,000	500 (-)	- 90%
Motorola	10,000	3,000	- 70%
* Miller Brew (MRO)	75+	20	
↓ Beth. Steel	200+	21	
United Air	12	4	

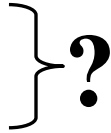
*Panelist statements about Power Transmission WDs at 1995 PTDA convention

21

THEORETICAL BENEFITS

IMCG

- ▶ Easier to save a \$ than to grow one
- ▶ Low cost is vital to survival
- ▶ Reduce numbers of variables, errors, costs
- ▶ Deeper, systematic, cooperative last relationship
- ▶ Exchange buying changes for service changes



22

Notes:

ADVERSARIAL TO PARTNERING CASE: IMCG

“Our thinking has evolved from:

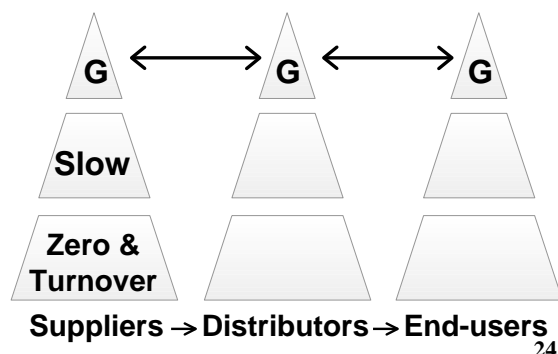
Find the guy with the lowest bid and monitor him so he doesn't fail to - find the guy who is the best and make him part of the process.”

A Boeing Vice President

23

GAZELLES GO WITH GAZELLES

IMCG



MANAGE CUSTOMER PROCESSES, NOT INTERNAL, HIERARCHICAL FUNCTIONS *MCG*

Order fulfillment

Special orders

Service problems

New need requests

Trade credit problems

User friendly customer processes* (YES!)

*See Exhibit 1

25

Notes:

SIGNS OF THE SEARS SQUEEZE *MCG*

1. Big customer initiates “win/win” contract
2. Lots of demands; ignore your concerns
3. Achieve synergy - 80% to them; (+); (+)
4. Systematically increase demands
5. Shop 6 - 12 months later: “Here’s last look”

26

UPFRONT CONTRACT ON “PARTNER ABUSE” *MCG*

Examples:

1. Ask for lower price without:
 - Linking to a cost reduction
 - Preserving win-win ratio
2. Ask for shared sacrifice in downturns?
3. Shopping deal against a “bargain price, bargain value” option, reverse auction with a skill.

27

SUMMARY POINTS



If:

- ▶ 90% of sales are commodities, and. . .
- ▶ Most consolidating customers want total cost reduction solutions
- ▶ We make profits on customers > products

Then:

- ▶ Is our sales force aligned with realities?
- ▶ Team focused on 10% of accounts that matter?

Notes:

Part 2

**Assess Our Current
Selling Effectiveness**

SALES FORCE MALAISE SURVEY*

- 50% + Don't feel they are effective
- 75% Of vets missing training they need
- 2/3 (-) Sales managers aren't sure what to do

(Why don't we have some good, new products to sell?)

*RavenHouse International Survey
www.ravenhouseint.com

CUSTOMERS VIEW OF SALES REPS* *IMCG*

70% Think reps. are product-focused
not customer solutions focused

10% Of reps add real value
(describe a “10” salesrep)

50%+ Of customers think reps. Are
generally incapable of creating
bottom-line building relationships

*RavenHouse International Survey
www.ravenhouseint.com

31

Notes:

ASSESS WHERE WE ARE *IMCG*

**I. Sales force effectiveness factors
(Exhibit 1)**

II. With our “best” customers (Exhibit 2)

- What’s our vision for working with:
 - core, target & “lead-2-gold accounts?”
- How do we bridge back?


32

**HONCHO “LEARNING” VISIT -
KEY ACCOUNTS (1)** *IMCG*

Voice of the customer research agenda:

- 1. What are the first things that come to mind when you think of your relationship with us?**
- 2. What do competitors do better than we do?**
- 3. What do you expect from us?**

33


HONCHO "LEARNING" VISIT - KEY ACCOUNTS (2) 

Voice of the customer research agenda:

4. What metrics do you use to judge best total value purchasing & utilization?
5. How could we improve what we deliver to you?
6. What are we not doing that you'd like us to do?
7. What is changing in your business that may have an impact on what we deliver to you?

34


Notes:

HONCHO "LEARNING" VISIT - KEY ACCOUNTS (3) 

Voice of the customer research agenda:

8. How well do we understand what you want and need?
9. What is most important to retaining you as a customer?
10. (Deeper observation questions - Exhibit 2)

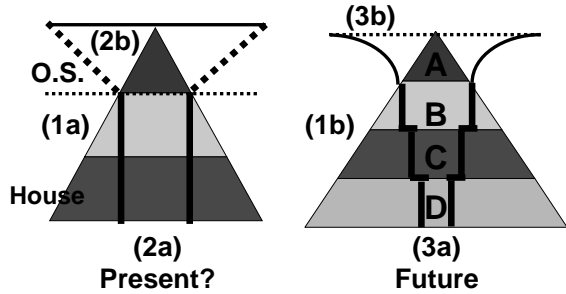
35

SUMMARY POINTS 

- Our best customers = A core competency mirror
- Could product-pushing promotion die hard in old distribution channels?
- How do we shift 90% of all marketing to demand replenishment system selling?
- How many different customer niches do we have?
- Service value packages for each?

36

Part 3 Segment & Re-Serve Customer Niches



Notes:

5 INTERSECTING LENSES



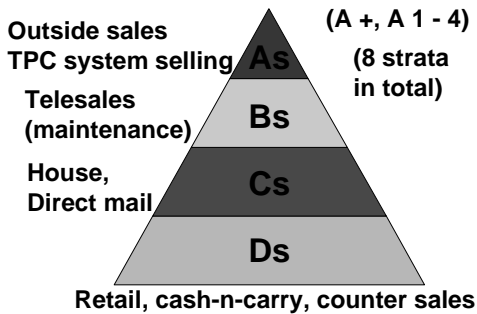
(1) Customer Profitability (x)	(2) Segments (x)	(3) Strata (x)	(4) Values
10 → 95	Customer		• Friends
20 → 145	+/-		• Value
40 → 155	prod. excl.		strategic
54 (35)	1.		passive
1 (20)	2.		aggress.
100 - 100	3.	• Price	

(5) Innovators → Laggards

Circle one from each column,
*Focus, re-invent

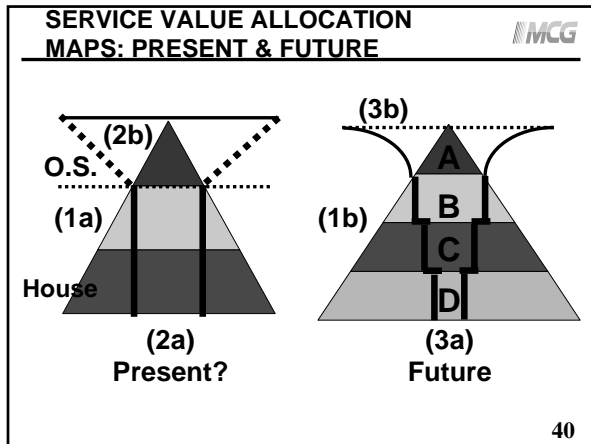
38

SUB-DIVIDE A SEGMENT BY SELLING METHOD COST BOUNDARIES

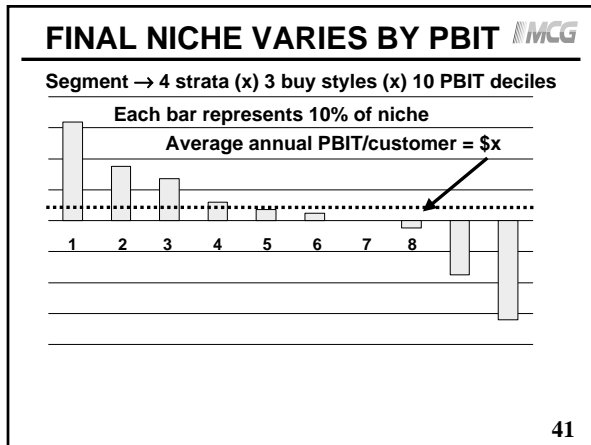


Module # 3.6

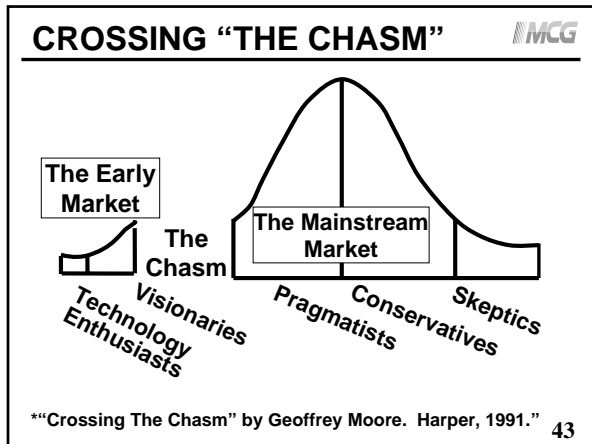
39



Notes:



- OUTSIDE SALES LIMIT?** *MCG*
1. To sell to & through a customer on a "TPC" basis, 1 call/month min.
 2. Cost/call = \$100
 3. Cost = 25% or less of GM\$;
\$400 GM +/-mo.
 4. Downsize, upgrade, re-orient salesreps?*
 5. Unfreeze account shifting? (M 3.11)
- *Article 4.9 and support notes
M = module in the High Performance video
- 42



Notes:

VALUE-BUYING CUSTOMER? IMCG

<u>Buying Philosophy</u>	<u>% Customers</u>	<u>So?</u>
1. Psychological stroking	1 - 15%	Some
2. Value-buying	80% (+)	Best "systems" segment
a. passive (20%) ←		
b. aggressive (60%) strip-n-shop		
3. Pure price buyers	5 - 10%	React to on our terms

44

VALUE-BUYING CATEGORIES OF CUSTOMERS IMCG

H I G H Net Price L O W	4) "Loyal friends"	High personal attention buyers
	3) Value accepting "customers"	
	2) Cost-plus contract buyers	Aggressive value buyers
	1) P. P. B.	
	Low Cost to Serve High	

45

SERVICE PREMIUM?

IMCG

Research:

- 5 - 10% more than average competitor's value-added (e.g. 20% → 21-22% GM) (10% → 10.5 - 11% GM)
- Last look + 1 + 1?
- Flow-thru to profit line?

46

Notes:

GROW FASTER VIA RETENTION

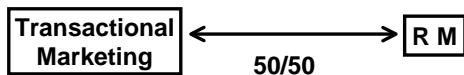
IMCG

- ▶ Win on positive turnovers
 - ▶ 5.26% edge (+) time = Vegas house win
 - ▶ What if distinctive:
 - ▶ Service guarantees
 - ▶ Service recoveries
 - ▶ Service heroics
- For: 10 accounts per branch (?)

47

RELATIONSHIP MARKETING SPECTRUM*

IMCG




(Tourist trap)

(Mainframe)

- Share of . customers' bus. is possible
- Low-high switching costs (e.g. CPA)
- Small/low risk investment → big/high
- Philosophical/skill sets of both parties
- Psychologically loyal buyer effect
- TM: sell personality, gimmicks & deals
- RM: sell security, synergy, lifetime value

*See article #4.6 at www.merrifield.com

48


SERVICE DIFFERENTIATION (X) 
WHAT ACCOUNTS

Strategic: large accounts requiring:
 -- integration, customization, innovation
 -- 2+ year plan with team-2-team collaboration

Integrated: large accounts requiring:
 -- cost(+) unchanging commodity flow
 -- common scorecard to insure/keep TPC

49


Notes:

SERVICE DIFFERENTIATION (X) 
WHAT ACCOUNTS

Emerging Gazelles: smaller, but innovative, fast-growing
 -- low risk way to test new ideas

Stable: a disciplined segment--serve at a profit program. (50% losers may leave)

50

STRATEGIC ACCOUNT OFFERINGS? 

“Valuelink” lite:

- ▶ Flowchart from consumption/utilization back
- ▶ What can they “outsource” to us to save huge invisible costs vs. pennies on bids
- ▶ Customize each proposal (+) modest innovations
- ▶ Sell & buy total value from top-2-top down
- ▶ Sell more product (+) services-for-fees
- ▶ Increase switching bonds & costs

51

11 ELEMENTS OF TPC*	
Cost of Acquisition	Cost of Possession
1. Cost of goods; price (only instant #)	1. Interest cost largest & most variable
2. Paperwork; P.O.; shipping, billing	2. Storage cost per sq. ft.
3. Shop / buy time	3. Control cost
4. Expediting + + +	4. Taxes, insurance
5. Mistakes	5. Shrinkage, theft, obsolescence
6. Internal handling	
*TPC - total procurement cost	



Notes:

5 • 5 • 5: LEAD2GOLD*
<ul style="list-style-type: none"> • 1 page report for all managers • 5 core customers in # 1 niche • 5 target customers in # 1 niche • 5 biggest losing accounts • Y • O • Y results • Mgt. action to take any to “next level” • 5 - 7 repetitions → mental shifts
*Article 2.20 & Exhibits # 30 - # 33 at www.merrifield.com



SUMMARY POINTS
1. Traditional distributors have too many reps
2. Too few big profitable accounts
3. Sufficiently good PBIT ranking reports = catalyst
4. Zero in on the few: core, target, lead-2-gold
5. Become “innovation mgt.” conscious



P.S. RE: "VALUE"



- Value depends upon the context and human "triune brain"
- Buying, selling best (customized)
total procurement cost best in business
- Even Costco beats Wal-Mart on TPC in ultimate price segment

55

Notes:

Part 4

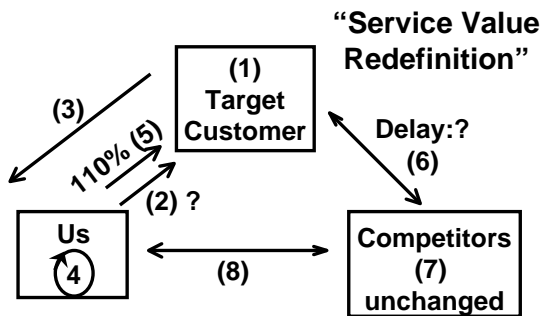
Innovation Imperative

"What do our customers want?"

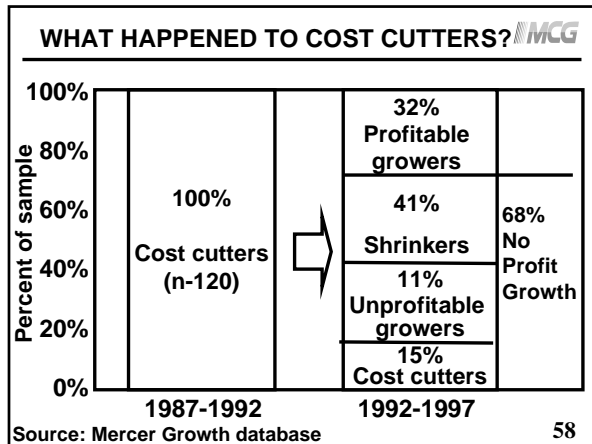
Refinements:

- ▶ Service packages: Lexus/Mercedes; CarMax
- ▶ Banks, casinos, airlines (x) customer strata?
- ▶ GE engines (x) Southwest Airlines?
- ▶ Software "beta-user" customers?

DO THIS BETTER?



57



Notes:

- SIZE & PROFITS - NO CORRELATION** *MCG*
- Economies of scale diminish
 - Diseconomies of local service flexibility & excellence offset (Costco vs. Sam's)
 - In some channels, slightly negative correlation
 - Most roll-ups lack innovation (Albertson's)
- 59

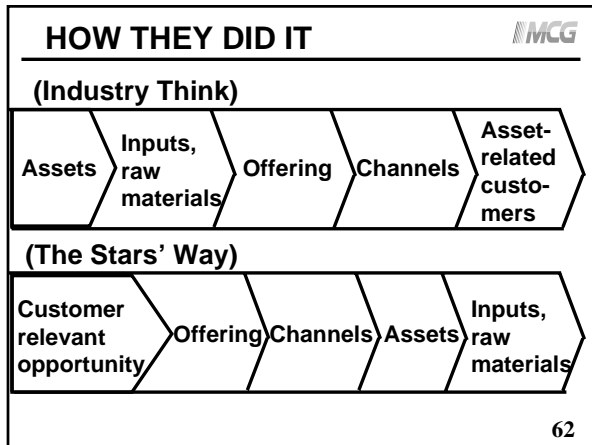
- REAL PROBLEM: NO STRATEGIC VALUE DIFFERENCE** *MCG*
- Everybody's doing "best practices"
 - Same "best processes" software
 - Can't buy a competitive advantage that isn't quickly copied
 - Even novel products cloned fast
 - Back to service re-invention
- 60

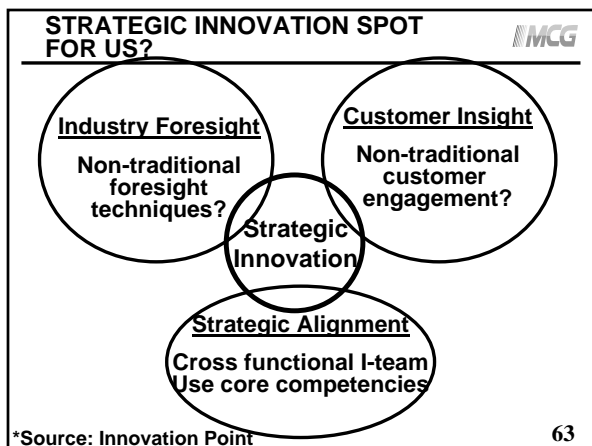
SOME EXCEPTIONAL STARS *IMCG*

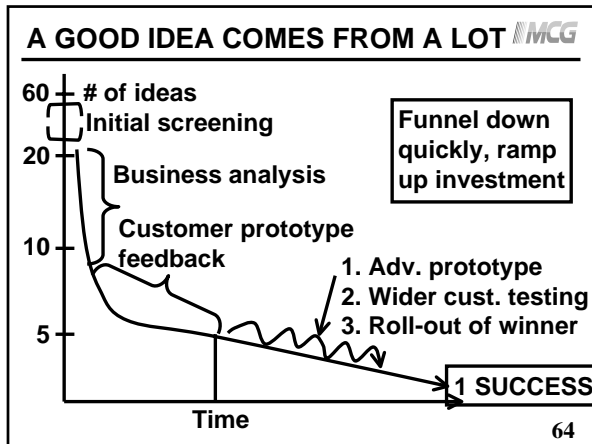
<u>Industry</u>	<u>Industry revenue growth '91-'96</u>	<u>Company value growth '91-'96</u>	
Steel	2%	21%	Nucor
Watches	2%	29%	Swatch
Coffee	3%	109%	Starbucks
Retail	5%	19%	Home Depot
Airlines	6%	31%	SW-Air
Industrial Products	3%	19%	GE

61

Notes:

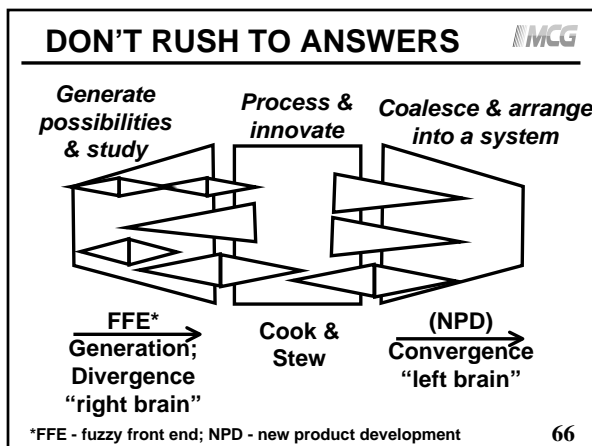






Notes:

- ### IDEATION TERMS & MANAGEMENT IMCG
1. Opportunity = Gap between today & envisioned future
 2. Idea - Embryo of new product or service
 Raw - unwritten (even unspoken & unstirred)
 first thinking is old thinking
 Submitted = Written - 1 line
 Researched = Written - 1 page
 3. Concept = Well-defined; written; & visual form
 4. Portfolio funnel odds?
- 65



WHY RUSH TO “CONVERGENCE”? MCG

1. Divergence seems frivolous, too blue sky (at first)
2. Lean-n-mean culture; tight meeting agendas don't allow for divergence
3. Divergence raises new questions. Don't want:
 - to acknowledge blind spots
 - lack of control
 - to be lost in non-linear soup
4. Convergent, quick-result thinkers kill ideas before they gestate & evolve. Others ?

67

Notes:

BE A “LEARNER” MCG

“In times of change, learners will inherit the earth, while knowers will be perfectly equipped to live in a world that no longer exists.”

Eric Hoffer

68

KNOWER VS. “LEARNER” MCG

- ▶ Admit “I don't know”
- ▶ Are willing to be influenced to get (+) results
- ▶ Have knowledge, but use it to
 - ▶ Learn more
 - ▶ Test what they think they know
 - ▶ Ask great, engaging questions of others
- ▶ Reframe reactive problem-fixing into bigger solutions aimed at systemic root causes aimed at some organizing vision

69

QUESTIONATE TO INNOVATE: *IMCG*

- Past answers, → block undiscovered questions
- More & better questions → define the real opportunities (?)
- If: 50% of success is defining the right challenge
- Then: first ask the exact, right question

70

Notes:

SPECIFIC QUESTIONS/IDEATION IDEAS: *IMCG*

- ▶ Get to the real root causes
 - ▶ 5 why's
 - ▶ Fishbone diagram
 - ▶ Multiple root causes → big pain
- ▶ Re-frame the opportunity (x)
 - ▶ Different customer niches
 - ▶ Outsourcing old/new support needs to # 1
 - ▶ Changing competitive levers

71

INNOVATE UP "EXPERIENCE CHAIN" *IMCG*

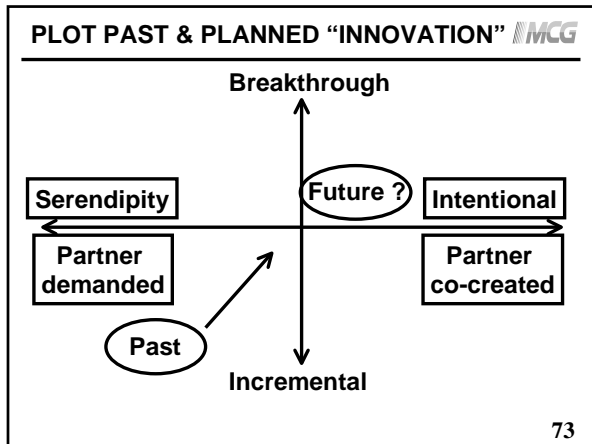
Coffee:

1. By the wholesale bag 1 - 2¢/cup
2. By branded retail bag 5 - 25¢/cup
3. Served retail 75¢ - \$1.50
4. Starbucks experience \$2 - \$5



Meet latent needs

72



Notes:

FROM McDONALD'S PAST* *IMCG*

	Product	Process	Strategy
Breakthrough (Disruptive)	Big Mac	Franchisee regulation of quality consistency	Global Expansion
Next Level	Value Meals	Hamburger University	Opening for Breakfast
Incremental	Green milkshakes for St. Pat's Day	New French Fry cookers	Boston Markets acquisition

*Modified from "The Innovation Resource".

74

- SUMMARY POINTS *IMCG***
1. If we keep doing. . .getting
 2. Learn faster at customer niche offering spot(s)
 3. We need a flexible (salaried +) sales force
- 75

Part 5

**Fail Forward In An
Innovative Culture**

Notes:

CHANGE IS TOUGH



Reweave The "Kinetic Chain"*

→ **Hi. Value/low cost = profit & brand value**

- 7. Incentives
- 6. Tools
- 5. Education (→ Skills)
- 4. Great People (apt. for "growing to")
- 3. Systems (simple, flex., friendly)
- 2. Strategy (vision, values, UMP, SCA)
- 1. Leadership (People)/Mgt. (Science)

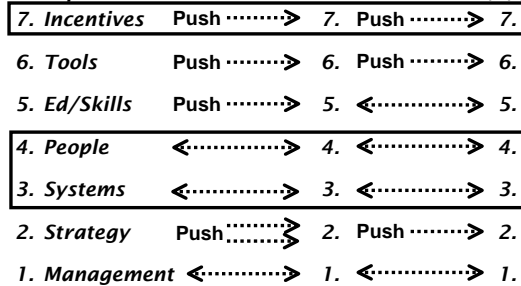
UMP - unique marketing proposition
SCA - sustainable competitive advantage

*Article 2.1
77

"CHANNEL CHANGE" (?)



Manufacturers → **Wholesalers** → **End-users**



Channel-wide strategy, tools & change guidelines?
e.g. groceries' "ECR, & CPFR"

78

GUIDELINES FOR CHANGE



1. For the keepers -- guaranteed salaries*
2. Teach & role model:
 - Pushing the wheel of learning
 - Making good mistakes; fail forward
 - Publish praising statements**
3. Every interviewed key account → “ideas”
4. Co-create new solutions with innovators
5. Crawl, walk, run with new services (x) niche(s)

Go to www.merrifield.com for *Exhibit 24 and for **Article 6.3₇₉

Notes:

FINAL CONSLUSIONS



1. Get good at selling different variations of: win-win, low-cost. High-value, demand replenishment systems for commodities to customers with a future
2. Innovate at the customer niche front & outsource as much of the back-end as possible
3. Let your niches dynamically dictate the role(s) of sales reps.

80
