SUPPORT NOTES FOR THE ARTICLE:
"SELL PRODUCTS AND A WIN-WIN RELATIONSHIP"(#4.9 at www.merrifield.com)

Assuming that you have read article # 4.9, the footnotes in that article correspond to the numbered comments below:

1. For a summary list of the assumptions and questions in this article see "Exhibit 1".

1.5 See Exhibit 2 for the story on why "90% of sales are on commodities".

2. For more on the definition of and how to sell TPC, see articles #ed 4.2 and 4.3 at www.merrifield.com. See exhibits #ed 2 and 3 under the "exhibits" button at our web site. And, discuss how lifetime usage, productivity and psychic benefits may apply to some of the equipment and tools that you sell to the people who use them. These concepts can also be applied to the cars that we drive to help those people who might not be fluent with the total economic story of your products.

3. The TPC reducing benefits of basic service excellence are in exhibits #ed 2 and 3 mentioned above. How the company can use "automated reminders" to make invisible service value become more visible and valued to the customer is discussed in our "High Performance…" video module # 4.10.

4. The answer to the question is the second choice - the bigger order. Margin dollars, not percentages, pay the transactional costs of traditional, distributor full-service that includes: knowledgeable inside sales people, picking, staging, delivering, trade credit and outside sales coverage. Retail customers, by contrast, do all of these service functions for themselves, so small transactions at higher retail margins can be profitable.
   The trade-off between lower margin percent for much bigger order size is hugely positive. When profit ranking reports are done by sales territory, companies will find that the sales reps with lower average margin percentages with large average order sizes are the most profitable. The small account, small order rep with high margin percent and small order size are the big losers. Many of these accounts might be profitably served by telesales or direct mail house status with: higher minimum order sizes, higher prices, tighter trade credit policies and some services unbundled for fees (such as delivery or doing special orders from factories).

5. Once basic service excellence is defined and tuned to each customer segment, the challenge of improving the metrics to the highest, most consistently reliable levels in the marketplace are substantially in the hands of inside people. Outside sales reps can, however, be cheerleaders by catching people doing things right and better and creating written praising statements for republication. (See our web site article # ed 6.3 and video module #ed 5.2 on the importance of systematically generating and publishing praising statements.) In one client case, reps had 4 by 6 file cards with the following questions to answer:
   - What happened at/with the customer? (good, bad? Circle one)
   - Who was responsible?
   - What personal skills and efforts did they display?
   - What benefits (setbacks) accrued to all involved parties?

   Then, whenever the rep saw or heard a good or bad service effect, they filled in a card. They had weekly minimum quotas of 2 or 3 that they had to turn in every Wednesday afternoon to the "Good News Bulletin" editor, who compiled all praisings from all sources to then print and email the bulletin to all employees by noon on Friday. The bad ones were disguised with additional comments tacked on about lessons learned and changes made to prevent future, similar "bads" from happening.

6. Sales reps are understandably not keen on going into core, target or big loser accounts and trying to see someone high enough up on the customer payroll that can understand TPC and change the company's purchasing philosophy, metrics and re-ordering processes. The honchos don't normally see sales reps, but will meet with the seller's honchos should they want to pay a visit. And, buyers are apt to be upset with reps who end-run them. There are a lot more how to ideas on how to do this in two support packages: a) See the "slideshow" at our site entitled "Cracking Target Accounts" and request the e-document, "More to Our Core in '04", that is available via email upon request to karen@merrifield.com.

7. For more on this see slide #11 in the slideshow mentioned above in note 6 ("Cracking Target Accounts"). One additional set of opportunities that may exist within a pool of bottom 50% performing accounts are the few large potential accounts at which the current rep has not been able to get to first base. As a general rule, if a rep hasn't done anything appreciable with a large potential account in one year, they won't thereafter. If such accounts are re-assigned to another best rep AND, they are given team selling support to quickly assess the true upside and what best total team, full-court press to apply, good things might happen.

8. My bias is to move reps to salaries that reflect their next best alternative job pay and let them earn bonuses on how much they grow the gross margin dollars over a target set from what the territory did the year before. Then, the firm can pay less for maintaining account volume and more for profitable penetration. And, accounts and their historical gross margin dollars can be more easily switched between both reps and strata selling methods. This type of plan is touched upon in the video module # 3.11.

   If your firm is paying the reps on gross margin dollars in some way, and you would like a small order transition plan that motivates reps to: manage customers better for higher average order size and give up small accounts with nothing but small orders to the house, consider the plan in video module #3.10 (more specifically for video users slide #118).

9. Skim through the article and case study #ed 2.19 entitled "Rethinking Distributor Profitability". All the analytical reasons for why an outside sales force can be – downsized, upgraded, re-educated, and re-compensated – are there.

10. The "High Performance Distribution Ideas for All" video is designed to be a catalytic transition management tool. All of the educational information for rethinking how a distributor makes money and must re-think their sales force is there. Lots of repetitions, discussion and modules allow for the majority of the best, most responsible employees to eventually demand that change happen. Through our resellers, the price of the video materials is negligible, and satisfaction is guaranteed as you can return the product within 30 days! The big costs will be the time people put into the educational process OR the ones your firm will pay if you don't rethink your business.

Exhibit 1

ASSUMPTIONS/QUESTIONS FOR RE-THINKING OUR SELLING OBJECTIVES

Assumption One: We are, in general, selling to customers of different sizes that are in different, but mostly mature industries. Many of our customers are suffering from too much capacity and not enough pricing power in their competitive space. They aren't excited about their current profitability or their growth prospects.

Assumption Two: 90% of our sales to these customers are repeat purchases involving items that the customers would probably consider commodities. They know that they can readily source the same or equal brands from two or more potential suppliers and always get a lower price, although not necessarily the best total value on all of the MRO needs. (See Exhibit A – "Profitability of Profits")

Question #1: What is the #1 procurement need that these customers have that we should be filling? (To buy the lowest "total procurement cost"(TPC) see articles #ed 4.2, 4.3; "High Performance..." video modules #ed 4.10-4.13)

Question #2: What is the over all driving-force objective that is behind those companies that have been pushing us along a continuum over the years from:

- trying and buying a product that we may have first pitched to them long ago to
- issuing blanket P.O's, for repeat supply items that have become commodities to
- co-creating MRO systems contracts at the local plant level to now, at the extreme,
- seeking suppliers for a centralized (for multiple locations) supply contract that is: global, integrated, unified (covering multiple MRO categories) inside of which the variety of similar items is reduced to as few standard items as possible?

Question #3: If TPC has been the hidden, driving and organizing force behind ever more comprehensive supply contracts for the past 40 years, wouldn't that be the same driving force that all of our mature customers have even if they have not formally defined and pursued it?

Question #4: Shouldn't we also be looking for the lowest TPC from our suppliers? For a distributor how should we define lowest TPC? Or do we? Shouldn't we, for example, prefer to buy from a commodity supplier with a higher price, because their total product/service offering yields both higher fill-rates and a "turn x earn" ratio? (First, optimize local, fill-rates, then turn x earn, then price to get best TPC.)

Question #5: If TPC is a largely hidden, but still a universal need, how could we do a more proactive job of selling the potential of our total service package to offer the lowest TPC? (Use "automated reminders" in video module # 4.10; everyone gets fluent with service metrics' TPC reduction benefits – exhibits #ed 2 & 3 at www.merrifield.com).

Question #6: Why have we (and probably most of our competitors) been distracted from trying to fill our customers' #1 universal need? Why have we been so fixed on trying to sell incremental products with occasional reminders that we sure would like a chance to bid on the commodity volume that we don't currently enjoy? (We are all unwittingly still caught up in the product-push, marketing culture created by suppliers when that use to work.)

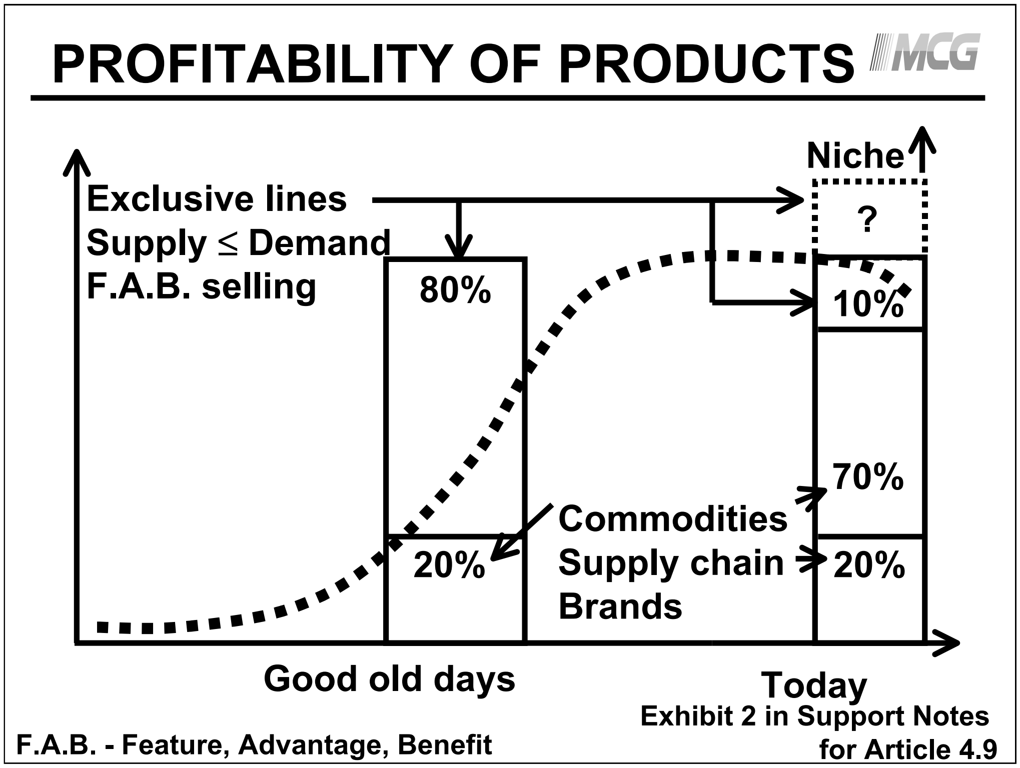
Question #7: Back to the notion of getting last look and trying to hold the line on margin erosion. What would be a more profitable account for the company: one in which our average GM% is 25% and our average order size has $50 of GM in it; or, one in which we average a 20% GM with an average of $100 in GM? (Hint the average industrial supply distributor's average cost per transaction is about $80. See video modules # ed: 3.8 to 3.11 on small order economics and cures.)

Question #8: Which of the following choices should be our ultimate, guiding objective:

- Get an order for some product that we are pushing?
- Get a stream of repeat orders on the products we are pushing?
- Get repeat orders and last look to meet the price to keep the business?
- Get repeat orders, last look and a bit more for our own individual value-added contributions that have put incremental profits to the customers' bottom lines?
- Sell a one-stop-shop assortment of items to and through the customer at both a lowest, best TPC for them and at the lowest total service cost for us so that we can make a profit?

Question #9: What percent of our current face-to-face time with customers and our sales meeting/education time is currently spent on each of the options in question 8? How should we theoretically, re-allocate our selling and education time over the 5 options in question 8? (Read article #2.20 - A Strategic Time Management Assignment)

Exhibit 15 on www.merrifield.com
Also Exhibit 1 of Support Notes for Article # 4.9



This slide has a story. I asked a room full of veteran sales reps: "What percent of your product sales today are price sensitive compared to what percent in the good old days when you had semi-to-exclusive supply lines?" We diagrammed it on the industry life cycle curve above. The good old days, for this channel, were the early '70's when (the bar in the middle of the slide above) only 20% of the sales volume was price sensitive. Supply and demand were "balanced", there were still occasional shortages, and 80% of the sales were at normal list price or sometimes next bracket for all of the business contracts.

The group's estimates for today's sales breakdown are in the bar on the far right. We identified four sub-groups of product sales:

- 20% of the volume today is super, price-sensitive, because they are influenced by supply-chain, private-label knock-off product pricing that is being offered by category killers in alternate channels and/or big, national distributor or distributor marketing groups.
- 70% of the volume is on name-brand commodities that are also available from multiple competitors as well as other equally excellent branded lines. These sales are price sensitive.
- 10% of the sales are still sold at list price. They are typically slow-moving, niche products for which the customer doesn't know or shop price; they are just glad the distributor has it in stock to take care of them.
- The group estimated that their company stocked about 20% of all of the items that all of their manufacturers had to offer, and 50% of the stocked items generated 1% of warehouse sales.
- All of the non-stocked items could, in theory, be special ordered, but the sales force rarely sold them proactively to prospective customers. These special order products are represented by the box with the "?" mark inside it.

The conclusions were:

- Profits no longer come from products, but from best customers who buy the best items on a repeat basis at a large enough average order size to cover transactional costs and contribute a profit.
- Customers want to buy the lowest total procurement cost, which requires consolidation of suppliers, standardization of items, more efficient supply chain systems and automation.

We need to radically rethink how to sell incremental niche products on a total life-cycle profitable basis. The historical go to market process and failure rates are unaffordable.