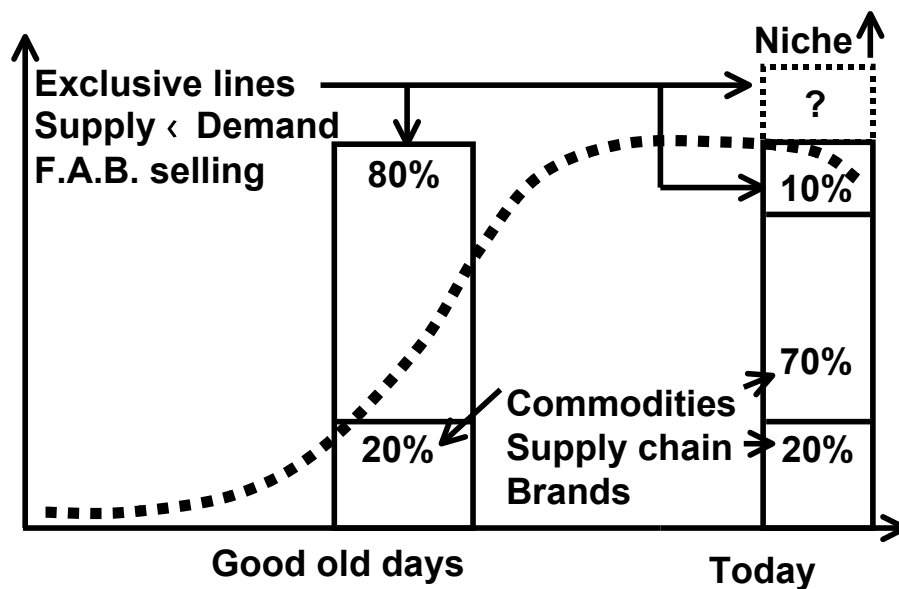


PROFITABILITY OF PRODUCTS



F.A.B. - Feature, Advantage, Benefit

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.