SCRIPT #2:

HOW TO TRANSFORM LEAD CUSTOMERS TO GOLDEN ONES

PROFIT IMPROVEMENT OPPORTUNITY FOR BOTH "PARTNERS":

At the bottom of customer profitability ranking reports for every profit center, distributors (chains) will find customers with good-sized sales and margin dollars with, unfortunately, transactional activity costs that exceed the margin dollars by a lot. It's tough, if not shocking, to learn that "best customers" (on a sales and margin dollar basis) are actually big net-profit losers.

How could they have so many annual transactions (often) with many small-dollar-per-line-item picks?

A customer may have – long ago – decided to minimize on-hand (or on the job site) inventory by doing just-in-time, counter buying or JIT delivery. While inventory carrying costs may be lower, the transactional-activity costs from too many small orders massively outweigh the JIT benefits. And, neither party ever thought about these hidden transactional activity costs that both sides were incurring.

For big losing customers, the activity-cost problem is further increased by the coincidental fact that the customer happens to be buying a mix of products that include small-price-per-pick-line-item goods. Unless a distributor has a special, high-pick, automated sub-system in the warehouse for small stuff, then it is just too costly to process line items with less than $5 -$10 in margin dollars per pick/line.

Some customers may have lapsed into a no-future-planning-for-goods-we-will-definitely-need habit. There re-order points for regularly used items have become "zero and we need it now". They call in emergency rush orders multiple times per day for the same repeat items!

A customer may have a lonely, sociable buyer who likes visiting with an inside sales rep, so they call in one or two times a day to say "hi" and place another small order as an excuse to call.

A distributor could win a large volume contract from which many (small) end-users can then buy from. Delivering to 50 different locations twice a week may add up to losing transactional economics for the distributor. A "big customer" in aggregate is actually many small customers with many small orders for which margin content does not cover the average transaction cost of our service model.

If any of these high-activity-cost customers start to think about the hidden costs of:

1. All of the paperwork that we send them for all of the transactional activity; or,
2. The costs of their people not being able to do something for lack of available product:
3. Downtime (either on the job site or for driving to and waiting at a distributor's counter instead of working)

4. Jobs not <u>done on time</u> for the next party in the value-chain (perhaps their customer)

5. Jobs not done thoroughly <u>and correct the first-time</u> due to necessary work-arounds for lack of all of the necessary physical goods or tool….

Then, they may realize that their hidden costs are large like the distributor's which include: order-taking, picking and delivery costs plus costs for paperwork to prove delivery and extend trade credit. The distributor's hidden "costs-to-serve" (CTS) rise and fall in parallel with the customer's "total procurement cost" (TPC).[1]

<u>WILL CUSTOMERS LISTEN TO OUR REQUESTS?</u>

How can we persuade a customer to work with us to order less-often in larger and more-planned orders to reduce both parties' high, heretofore hidden, transactional activity costs? Not all accounts will be equally cooperative with this objective. (And, not all reps will be initially receptive to rocking any customer boats, especially if there is any risk of their losing commission income based on the margin dollars currently being generated by the account instead of the net-profit from the account.[2])

From much experience at turning lead customers into gold, I have anecdotally observed that:

40% of all customers are quite open to and co-creatively cooperative with how to tweak the existing buy-sell process. They are as much concerned about the supplier losing money as they are about their own possible extra, hidden costs.

40% don't care that we are losing money, but are interested in hearing how they might be incurring unnecessary hidden costs. A good percent of these will also be in denial about having any oversights in their TPC buying effectiveness. Without any actual measurements, they will assume that all potential, hidden costs we point out are trivial. And, they will be somewhat defensive, because they do not want to admit that they have been historically, myopic, ineffective buyers who didn't see the hidden costs.

20% don't care about either side of the story and don't want to change. They are:

a. <u>"Cherry Pickers"</u> only buying from us when we have something that their regular suppliers don't have: odd items; a convenient counter location; a late cut-off for ordering; an express service capability; items on sale or close out pricing; etc. Their goal is to pick the cherries AND negotiate big volume discounts and terms too.

b. <u>"bureaucrats administering low-price-wins bids"</u>. We have to either get to someone higher who has the ability to change policies or help them write the bid in a way that won't kill them and us on hidden costs and will favor our unique service value adds.

[1] For more on the "total procurement cost" model see: Ex. 15 at www.merrifield.com
[2] Either guarantee no downside compensation risk to reps; and/or switch them to a no downside and only upside incentives based on net profit improvement progress at any and all accounts.

A combination of a and b and/or being <u>blindly loyal to (and well-greased)</u> by another entrenched competitor that has the lion's share with good order-size economics leaving us small, fill-in, losing activity.

We obviously should start in a low-key way with the most-friendly customers in order to learn our new, alchemist, lead-to-gold skills and gain confidence before we take on the more challenging customers with more political environments.

What is a chronological process for approaching, pitching and then transforming a lose-lose relationship into one with a lot less channel, activity-cost for both parties?

<u>CHRONOLOGICAL STEPS TO THE SCRIPT:</u> <u>PRE-VISIT STEPS:</u>

- Choose the corporate and profit-center "champion" for the "Lead to Gold" program

- Identify a specific number of target super-losing accounts to initially focus on for each profit center and each sales territory. The risk of this "experiment" can be controlled by:

- targeting fewer, more friendly accounts

- Doing maximum preparatory research and agenda planning

- Seeing the first visit as one that will be a non-confrontational, "let's start a conversation and joint discovery process to see what we might find" affair.

- Set up a Waypoint tracking report to monitor the "delta profit improvement" progress for these accounts.

- Do enough advanced training via case study analysis with the sales force using Waypoint right-click tools (account P&L; item profit ranking; order profit ranking) to be sure that they all understand and believe in:

    - The reality of CTS economics for both their super winner and loser accounts

    - The true upside win-win potential for both the company and the losing account.

    - Initial brainstorming analysis meeting. Review the super losing accounts per sales territory as a team comprised of anyone who might have extra insight into or customer contact rapport with the losing accounts. By using the Waypoint right-click tools a lot of discoveries as well as speculative theories and new questions will arise.

The champion should run the meeting and keep notes on all follow up questions and research that may be done with intention of assigning second-round analysis tasks to different team members (if needed).

Try as best possible to identify all of the customer personnel who are directly or indirectly touched by our company and products and speculate about: How they are judged and measured (key performance indicators - KPIs) at year end by whom as to whether they are doing a good and continuously improving job. Potential positions are:

VP Supply Chain who has the capability, responsibility and power to both see and change the overall buy-sell, inter-business processes that exist between our companies. (they hopefully think “TPC”).

Buyer who negotiates the price and terms of goods sold. (“Price”; not concerned about paper work processing costs which is their job/turf.)

Re-order, replenishment person. (Frequent ordering and paper processing is their job security too.)

Physical stock management person (effective housekeeping/replen. Info systems).

Actual users/consumers of the goods we shipped (right product and application/usage knowledge).

Supervisors of the users (uptime productivity stats).

Accounts Payable clerk (more paperwork is job security).

Score each customer on friendliest, open-minded and win-win oriented to zero in on which customer(s) will get the first visit.

When the first-round, analysis session is completed, the champion/secretary can assign – if necessary- additional research tasks to whomever and pick a date for the second and final round of analysis and planning. Or, the team can go right into planning a meeting and agenda for the meeting.

PLANNING THE MEETING AND AGENDA FOR THE MEETING

Based on the analysis, who should be the lead negotiator for our team and on whom should they initially endeavor to call within the customer’s organization? Because we are going to talk about buy-sell process changes and hidden, heretofore unmeasured systems economics, the most common summit visit should be between our “VP of Customer Supply Chain Value Improvement” and their “VP of Supply Chain Cost Improvement”. We need, in other words, to call on someone who can: see the entire process picture; care about it; change it; and reassure others below that they aren’t going to lose their jobs if and when a lot of their busy, activity work gets consolidated.

How should the sales rep be involved in setting this meeting up and participating in it? It depends. Make that up as you go along. The goals should be to:

Make the rep always look like a good guy with our VP being the heavy in some accounts down the line.

Make sure that the buyer doesn't feel like anyone politically undermined them. We should instead try to make them look like a hero by giving them any (typically undeserved) credit for being part of the new solution.

What should the customer honcho be told that the meeting is about? Tell them that our honcho would like to share some fascinating, new, analytical information about our total cost-to-service their account and their total-cost-to-buy from us. The data suggests that if we work together we can eliminate a lot of hidden buying and servicing costs, but we need their insight and help to specifically define this win-win opportunity.

Simplify, modify and fill in the blanks for the "Sample Agenda" exhibits that are attached.

Exhibit 1 is for all customers

Exhibit 2 is for hard-nosed customers for which you are a minor supplier

FOLLOW-UP, SOLUTION- IMPLEMENTATION STEPS:

Do the visit and the "review/tour".

Identify "action (follow up) items" that both parties will do. Be prepared to do most of the work for the customer at their premise, because they "don't have time or resources". Or, you may have to invent a special extra service that you do for or with them to solve both the small-order and small-line-item pick problems.

Decide how you might recoup some or all of the one-time and on-going extra service expenses that may be necessary to get to a win-win system.

Plan on giving them a formal progress report on the analytical profile every 3-6 months as necessary.