

# **SURVIVAL ECONOMICS**

for  
**Heavy-Duty Distributors**

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# 5 KEY AREAS OF REASONABLE END USER EXPECTATION

- **Whenever they want their stuff;**
  - 24 X 7 X 365... customer convenience rules!
  - JIT...product information *their way*
- **From wherever it might be found;**
  - 100% access to any item in the world!
- **ASAP (or Sooner);**
  - Shortening “special order” times
- **X(Y)(Z)% Off... a new pricing frontier.**
  - Based on the nature of each individual transaction.
- **You know something they don't !**

# **Information Trumps Iron**

**I=I=I**

**Information  
equals Inventory  
equals Investment.**

# What Are You Worth?

- **Reliability**—does the distributor come through, consistently?
- **Timeliness**—are the goods there when the customer needs them?
- **Accuracy**—is it the right product in the right quantity?

# According to Machiavelli:

**“Change has no constituency.”**

**The Challenge:** Pinpoint the differences between our traditional behavior and what our strategy advocates, so that we can:

- Minimize our emotional resistance to new ideas.
- Agree on why and how we need to modify and perhaps blend both the old and the new.
- Have better transitional dialogues with employees who have the most to lose by adopting new things.

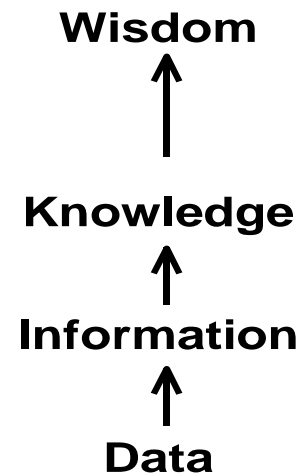
# Key Change Factors

- **Changing Technology...** Both of the products being distributed and of the delivery techniques
- **Source of Financing...** Distribution has never been a Wall Street darling, nor has it been a real bankers' favorite.
- **Asset Management...** Including off - balance sheet items like customer relationships and organizational competency.
- **Changing Role of Sales...** Consultative selling will be the only successful method as Willie Loman retires.
- **Globalization...** Many customers are requiring supply chain to follow them as they expand internationally.
- **Data Overload...** Ability to sift valuable *information* from endless piles of operational and transactional statistics.
- **Integrated Logistics...** It is no longer sufficient to think of distribution as independent links in a supply *chain*.

# DATA, INFO, KNOWLEDGE, WISDOM

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## “Knowledge Management”



# Fleet Specialists Are Morphing

## Traditional Role

Stocking/Inventorying

Selling/Promoting

Information dissemination

Supply Integration

Financing

Problem solving

## Change Factors

Integrated logistics, Lean

Buying groups, Internet

Wireless, Internet

Mergers, consolidations

Private equity, IPO

Entrepreneurial outlook



# Essential Distribution Functions

## **TRADITIONAL (Prior to 2000)**

Time and Place Utility

Fast, Local Response

Breaking Lots

Lower EOQ

Supplier Aggregation

## **EVOLVING (Next Decade)**

New Product Design Assistance

Predictive Market Needs Analysis

Efficient Consumer Response

Lean Distribution (No EOQ!)

Sudden Service for Market  
Segments of One

# Distribution Development Cycle

<u>Decade</u>	<u>Primary Competitor</u>	<u>Strategy</u>
1940's	Manufacturer (direct)	Go for rapid growth
1950's	Brokers	Penetrate; limited lines
1960's	Similar Distributors	Increase time/place utility
1970's	Limited Line Specialists	Service differentiation
1980's	Manufacturer (direct)	National accounts
1990's	Non-Traditional Formats	Cost/value for commodities
2000-	<i>Splintering of Formats</i>	<i>Narrow customer focus with menu driven service product/price array</i>

# **1900-1980: Dependent Distributors- Sales Oriented**

- Not really calling many shots, but generally thriving;
- Slaves to economic cycles, growing faster than GDP;
- Manufacturers rule!
- Very loyal customers;
- Low barrier to entry, EDP starts to arrive.
- **Demand driven.**

# 1980-2000: Independent Distributors- Operations Oriented

- Massive new technology proliferation;
- New customers and needs create focus on “value added”;
- Customer and competitor consolidation;
- New buying strategies to face margin pressure;
- **Supply driven.**

# 2000- : Interdependent Distribution- Customer Needs Oriented

- Channels no longer follow traditional charts
- Blurring channel identification and non-traditional formats;
- Channel crossover along with micro-niching;
- **Information driven.**

# Competition vs. other providers of supply solutions.

**Traditional local competitors...** Other distributors will change in more dimensions than just size as they are involved in the largely inevitable consolidation trends.

**OES (OEM service organizations)...** Increasing technological sophistication of products plays well to “Factory Authorized Service” solutions.

**New integrated logistic systems...** A logical strategy for margin challenged delivery and trucking companies is expansion into the other functions of distributors.

**Shared systems...** It is also logical for distributors serving many diverse markets to try to leverage their expensive fixed capital and personnel.

# Competition vs. your external business environment

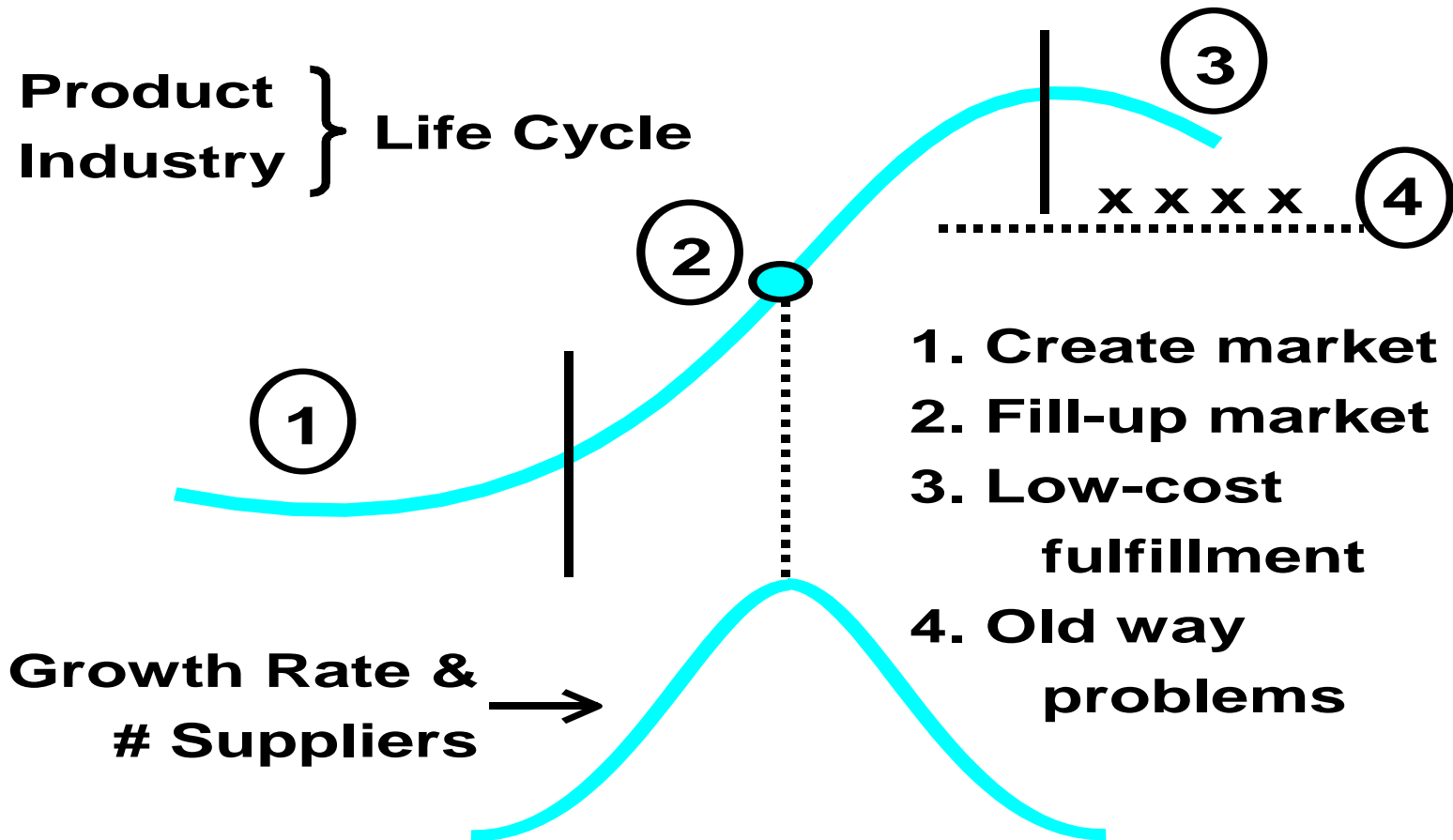
- **Changing customer wants**... *Needs* have been largely addressed in most of NAFTA
- **Increasing use of specialized process technology**... Global technology advances in the systems necessary to create lean distribution are now being adapted.
- **Complex product technology**... The knowledge component of the products you handle is roughly doubling every seven years!
- **Financial support**... The continuing shift of margins away from the distributor has relegated distribution to a low spot on most financial institutions' priority totem pole.

# Life Cycle Issues

- **Reforming** is the effort to maximize the mature period.
  - Reducing operating costs;
  - Doing the basics well;
  - Retention and penetration of existing customers;
  - Increased outsourcing and drop shipping;
  - Building the inside sales force.
- **Transforming** is the reinvention of the entire services package.
  - Revenue growth;
  - Service innovation;
  - Strategic alliances;
  - Training (internal and external); Reengineering the sales force.



# LIFE-CYCLE ASSUMPTIONS



# Growth Patterns in Distribution

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Stage 4</u>
<b>Operating Style</b>	Entrepreneurial	Bureaucratic Silos	Internal Integration	External Integration
<b>Market Driver</b>	Sales; Get the Order	The Best Execution of Existing Tools In Sales/Marketing	Total Customer Satisfaction	Total Value for Every Channel Participant
<b>Success Measures</b>	Results vs. Last Year	Results vs. Business Plan	Results vs. Industry Customer Service Standards	Results vs. Unique Customer Value Measures

# The Most Dangerous Assumptions

- End users will buy our products because we think they are good;
- Our products simply sell themselves;
- Customers will buy because they are technically superior;
- Customers will think that there is no risk in changing to us;
- Distributors should be desperate to stock and sell every new product;
- Manufacturers will deliver new products and promotions on time;
- Distributors effectively cover the geography they claim to;
- Competitors will respond rationally to our new marketing programs;
- Any product will be exclusive or unique for more than a year;
- Prices will rise over time.

# Beware of Potential “Distance” Extenders

- **Different relative age...** experience *alone* is not enough to prove your value. That is proven only by recent performance.
- **Obsolete industry practice...** virtually no practice should go unchallenged. A new solution that didn't work yesterday may blossom tomorrow with new technological tools.
- **Channel compression...** Suppliers want to be close to the user too, but it is the distributor who is there every day.
- **Channel contention...** OEMs think the full service strategy looks especially appealing during periods of slumping capital investment.
- **Technology deployment...** There is a very real difference among data, information and wisdom.

# Strategic Folly

- The future will simply be an extension of the past.
- Who cares about performance to plan... we beat last year.
- Sales tell the whole story... sales are king.
- Our stupid competitor sets market prices.
- We'll make it up in volume.
- Change is such a pain...there's always next year.
- “They” aren't real distributors and don't know “our business” and can't find “our” customers because this business is so “different”.

# Criteria for Distributor Evaluation of Manufacturer Performance

- Complete Line of Consistent Quality Product
- Availability and Delivery Reliability
- Gross Margin and Turnover Opportunity
- Field Training and Technical Assistance
- Terms, Credit and Return Policies
- New Product Development Success
- Promotional and Co-op Marketing Support
- Reputation and Management Integrity

# Criteria for Manufacturer Evaluation of Distributor Performance

- Knowledge of Local Markets
- Ability to Penetrate Local Markets
- Technical Sales and Troubleshooting Ability
- Prompt Payment and Financial Stability
- Complementary and Competitive Lines Carried
- Information Technology
- Reputation and Management Integrity

# Partnership Focus

**Focus on Total User Costs...** In the end, nothing else counts. Product purchase price is typically just over half of the total procurement cost... attack the other half relentlessly.

**Implement Strategic Account (and product line) Focus...** You are not superman. Pick those areas in which your organization excels and go after them with a vengeance.

**Emphasize Training...** every employee... every level. Increasingly, investment in human capital is becoming the *only* sustainable competitive advantage.

**Integrate Inventory Management...** Increased visibility of demand and stock status can wring an estimated \$10 billion in waste out of the system (as of 2004).

**Integrate Physical Distribution...** Remember, I=I=I, so inventory has no value until it is properly installed.

**Communicate Endlessly...** The distributor's role shifts subtly from being the selling agent to being the purchasing influence in every transaction.



# Here Are The Rules!

- **Distributors are in business to make a profit...** even though this is sometimes ignored by suppliers and forgotten by employees.
- **Cash is King...** there is just no substitute for its stabilizing effect.
- **Market information is efficient...** at least in the intermediate term, there are no secrets.
- **Selling prices are set by the market...** there are no unserved markets left in NAFTA, so premiums are, well, at a premium.
- **Product costs are set by the supplier...** eventually, manufacturers, not buying groups, hold these cards.
- **Operating profit is directly related to efficiency...** that is the only sustainable competitive leverage.

**Price is the result of value, not its cause...**

*value is not service divided by price!*

# **Profit Multipliers... There are only a few places to look!**

- **Increase Sales Quantity** (may also increase costs)
- **Increase Price** (may decrease quantity)
- **Decrease Returns and Allowances** (without affecting customer expectations)
- **Cut Purchase Price** (limited opportunities over time)
- **Control Operating Expense** (everyone has to play)

# Recognize Costs of Purchasing

<u>Cost Category</u>	<u>% of Total</u>
• Product	60%
• Errors in Process	9%
• Need Specification	7%
• Receiving	7%
• Inventory	7%
• Invoice Processing	5%
• Ordering	3%
• Supplier Selection	2%

Source: WWGrainger

# Cost Components

<u>Expense</u>	<u>Examples</u>	<u>% of S&amp;A</u>	<u>% of Sales</u>
Selling	Commissions, C/S support	33%	7.5%
Delivery	Fuel, vehicle, Driver	12%	2.6%
Warehouse	Material handling, Pickers	11%	2.5%
G&A	Manager pay, Office support	32%	7.4%
All Other	Rent, utilities	12%	2.6%

# **This is a CRISIS.**

**Over 90%** of wholesale distributors have a “strategy” that isn’t making enough profit to **survive** the slow-to-no growth, **no-pricing-power** future that **will persist** for the foreseeable future.

# Financing Model

Our financial management reporting system evolved due to **three big shaping forces:**

- Securing asset-backed lending
- Paying the right amount of taxes on a timely basis;
- Managing for positive cash flow by “collecting early/paying late” and keeping internal costs that we can count, know and manage (originally by hand).

# Finance Doesn't Tell The Whole Story

- Top down, incremental, cost-cutting financial management can't create new, organic profit power growth.
- Make a list of “blind spot” practices that may net negative effects on your company and discuss them openly.
- How can we measure and reward everyone for doing things to improve our service value proposition for the right customers in the right niche(s),
- How have financial management themes have pervaded our assumptions about promoting products through our field sales force.

# The Suicide Spiral

- A **good customer** of yours puts business out for bid.
- A “**dumb competitor**” using marginal cost thinking bids lower;
- **You** get a chance to meet the low bid and do to keep the business using marginal math.
- Having lost margin dollars needed to pay the bills, **you** go after some new business with marginal cost thinking and get to play the “**dumb competitor**” role to some other entrenched distributor.

*Thus is born another a downward spiral “started by the other guy” with the “dumbest, most desperate competitor” determining the bottom price for 90%+ of distributors who are price takers.*



# Talk About Income Distribution...

**The bottom 90%** of all distributors averaged a measly **5.4% ROTA**, while the **top 10%** averaged **15.4%**.

Therefore, the top 10% can make 4 to 6 times the after-tax return on shareholder's investment (ROI).

# A DISTRIBUTOR CUSTOMER PROFIT RANKING

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<b>% of Customers</b>		<b>What % of “PBIT”</b>
<b>Top</b>	<b>10%</b>	<b>95%</b>
<b>Top</b>	<b>20</b>	<b>145%</b>
<b>Top</b>	<b>40</b>	<b>155%</b>
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<b>Bottom</b>	<b>20</b>	<b>(55%) Breakeven</b>
	<hr/>	<hr/>
	<b>100%</b>	<b>100%</b>

# How Do The Top 10% Do It?

- **Define** their most profitable customer niche(s)
- **Define** their total service value offering and service metrics for those niche(s)
- **Measure**, achieve and **sell** that service formula better than anyone else
- **Execute** at the lowest cost, because of better customer niche-focused economics
- **Finance** the improvement of their better, focused service **by re-deploying resources** spent on, heretofore, losing accounts that are in other niches for which the distributor has no chance of dominating locally.

# IF...

- A big percent of our sales (80 to 99%) are on established items for which competitors have the same or equally excellent lines.
- A big percent of our sales are on price-sensitive items to seemingly price sensitive customers.
- A big percent of our sales (80 to 99%) of our sales are to the same customers we sold a year ago, but that base of customers is consolidating.

# AND...

- About 5% of the customers we serve in any given segment are growing both faster and more profitably than their competitors (from whom they are taking market share).

*Note: Do the math... This organic consolidation by the most effective 5% makes the least effective 50% of a customer segment fade away; they are the living dead or extinction in motion.*

# THEN, WHY NOT...

- Marry the best customers and serve them so well and valuably that they would stay with us and grow us?

*Question ... Why would they marry us? For what unique product or total service value proposition?)*

- Deliver the most consistent, error-proof (low cost, high morale, high value way to go) service so we don't give customers any reason to defect to the competition?
- Not alienate as many good customers into switching to the competitors as they alienate and send to us?

*Question ... Couldn't we grow faster than the industry by having fewer service fumbles?*

# Automate the “Old,Old” Quadrant

- Identify a common group of customers that all buy the same basket of common items.
- Selectively, strategically round out that special sub-group of one-stop-shop items and beef up our investment in them to have the highest, local, competitive fill-rate capability.
- Team-sell the 5 to 10 most important customers on TPC system possibilities.
- Go for a high share, 50 to 85%, of the most profitable customer volume within the target niche, so that their collective demand will give us a high turn-earn for the investment in the common basket of items.

# **A Real Heavy Duty Secret**

**The best flow-through happens if we just raise prices and don't lose any volume.**

- **45 x** the average EBIT of 2%
- **19 x** the flow-through increment of selling more to profitable accounts only; and,
- **9.5 x** the flow-through of selling more best items to best customers on a systematically generated, larger average order size basis.



# Mythology of Distribution

- Buy low
- Sell high
- Collect early/pay late
- Hire them cheap/work them hard
- Sell more volume to share fixed costs
- Cut costs with information technology
- Share numbers on a need to know basis

# **Buy Low... Win/Lose**

**False Targets: cost of goods sold  
(suppliers) and the payroll (employees)?**

The problems are: it isn't creating long-term sustainable profit power, and it violates the golden rule... Would we like someone to force us to give up 1%?

# The Bargain Trap

**Bargain price, bargain service traps come in many disguises.**

- Most distributors have lost business when a new buying guy at a big fleet decides to shop for a fast, real “price savings.”
  - No one on the customer’s payroll is in charge of tracking the “hidden costs” of the new, bad service.
  - It takes a while for the account to realize that they have made a negative trade-off.
  - Customers actually come back to us at our old terms!
- **Are we guilty of buying or hiring cheap and then paying a long-term, hidden cost in lousy service from a supplier or poor quality aptitude and attitude with an employee?**

# Sell High ... Nice Idea, But...

**Like “buy low” with suppliers, “sell high” is a constant battle with aggressive, buy-low customers. Remember:**

- the most profitable customers generally pay lower than average prices and margin percents
- Buy faster-moving, commonly purchased items (slow or non-moving special stock items drag down profitability)
- Buy in larger average order sizes due to their own focused strategy, bigger volume needs, and/or a disciplined replenishment system that avoids emergency small orders and generates larger average orders without creating excess stock on any items.

# Common Wisdom Isn't True!

- Customers that pay higher prices on much smaller orders (and still receive full wholesale services including delivery and trade credit) are **always losers**.

*Our transactional activity cost exceed the margin dollars in the orders.*

Small accounts can become profitable if treated in a quasi-retail fashion with help-yourself, retail formats and prices.

# Resource Allocation Is Apparent, But Not Obvious

**How much of our marketing resources are focused on:**

- How to sell higher prices, terms, special charges to customers for which our distinctive, focused, service value would still be delivering the lowest TPC in comparison to some other, “bargain price, bargain service” competitors?
- Systematically selling more, best items to best customers on a system basis?
- Selling only profitable accounts with a promising future on a total team basis?

# **The Grass Is Always Greener... But If It Barks...**

- Weren't all items "new" at one time?
- How much do you suspect that we spent unsuccessfully in trying to get them to sell?
- How can we do a better screening of potential new items to pick far fewer items in a more customer niche focused way to increase our success rate?
- Before we consider any more new items, shouldn't we first systematically exhaust the selling of more old items to old customers (the "old,old" cell)
- Wouldn't it be easier to find new items by reviewing ideas with our top 10 accounts. We could look together for new items and lines that we could add.

# You Won't Make It Up in Volume.

- **Most fixed costs can become quickly variable.**
- Do a trend analysis over a number of years to see how general overhead costs actually vary
- Not all, additional volume is equal in its ability to share costs.
- **EBIT losing customers don't share costs, they add to them.**



# **Volume is vanity, profit is sanity.**

- Retaining profitable, right-niche customers and targeting the few that are both strategic and promising will generate faster volume growth than doing product promotions to too many customers on a deal basis.
- Don't be seduced by suppliers offering great product launch packages loaded with temporary concessions unless an appropriate number of your core niche customers agree that it upgrades your one-stop-shop offering to them.
- When suppliers protest about not working with their their promotions, they will warn you'll lose out on "rebates."
- Do a trend analysis on "fixed costs" as a percent of sales for a few years to find out how fixed they are.

# Computers...

## Another Nasty Secret

- Cut costs through automation.
- Information is a strategic weapon.
- One small problem (reported in every cross industry study)

*There is no correlation between how much a company has invested in infotech “solutions” and the company’s ROI.*

What good are such tools without effective strategies being implemented through solid processes by good aptitudinal people with the skills and motivation to utilize better tools?

# What Computers Can't Do...

- Computers won't help improve a vague, misdirected strategy.
- Computers won't re-engineer the processes that snake through the departments.
- Computers can't eliminate structural disconnects at the departmental boundaries.
- If all other competitors buy the same automation to achieve the same simple superficial efficiencies, where are the competitive advantages and sustainable profit power?

# **Information Trumps Iron**

**I=I=I**

**Information  
equals Inventory  
equals Investment.**

# **Efficiencies that everyone can buy are necessities, but the savings usually get competed away.**

- Numbers posted everywhere will be crucial to getting everyone moving together in a new, re-aligned way to create more profits.
- Using infotech to pursue traditional financial management or to do what we are doing more efficiently will be like having a high maintenance cost racecar without having a roadmap.

# **Your Only Specific Asset**

- Cut the oats, or find a new way to farm.

# Why Should We Share The Numbers?

- To define core target accounts and use them to re-tune service metrics, how will things improve if all the employees aren't given access to real time service performance data?
- Why should the employees want to suffer change? What's in it for them?
- Shouldn't we just go ahead and share all of the general financial numbers, so they can be measurably responsible for improving them too?
- Don't all of the great companies we keep reading about share numbers and have different forms of profit gain-sharing?

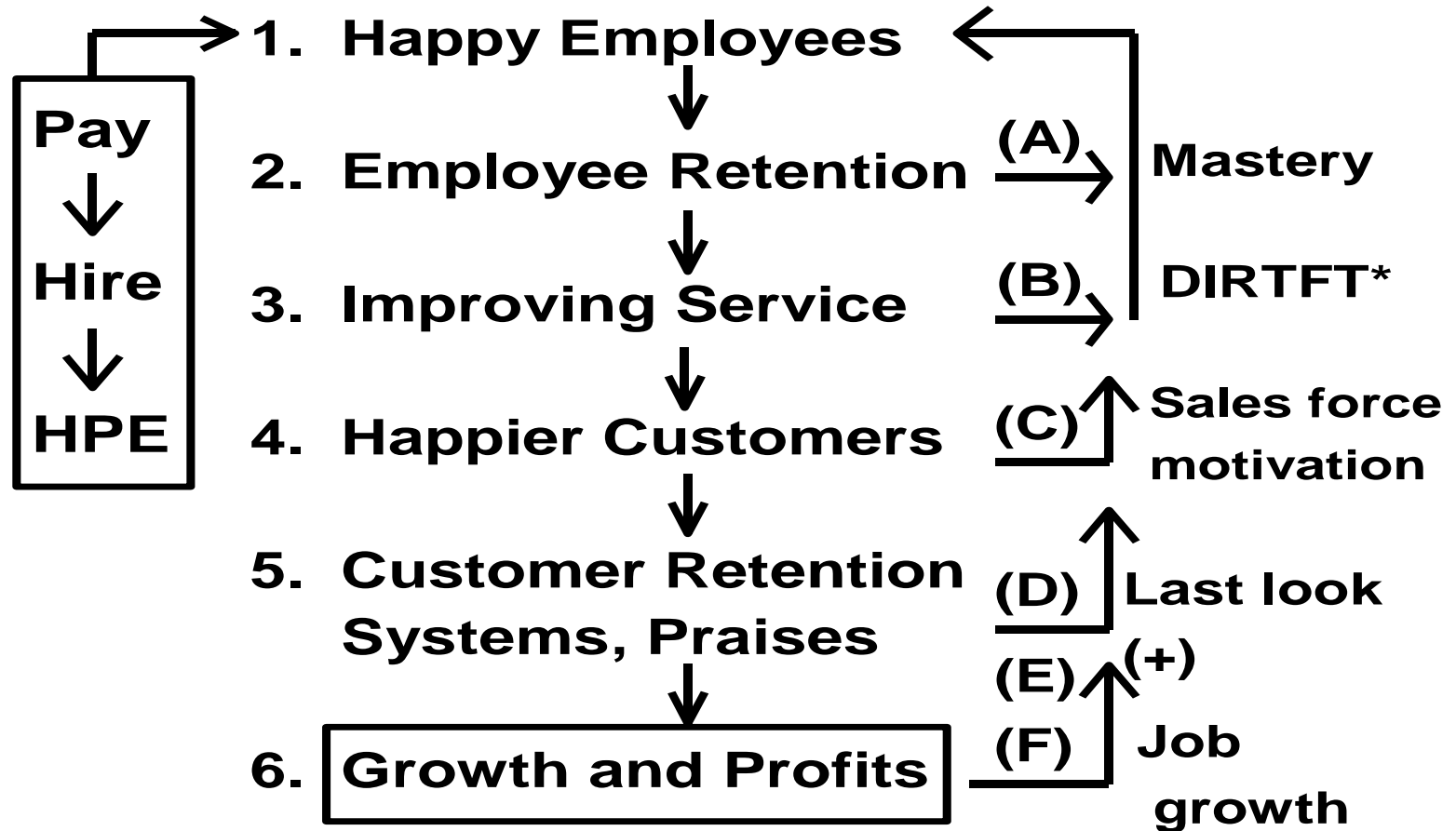
# Hire `em cheap, Work `em hard...

**“Service” is our only means of differentiation.**

- 90%+ of our sales are on products that are equally excellent, if not the same brand as our competitors.
- Distinctive service comes from great employees. The equity that we have built in them is not measured, managed or rewarded by our financial scoring system.
- Better aptitude and attitude employees do cost more than average ones to initially hire and keep long enough for their skills to be improved as part of the excellence capability.
- Service retention theory does make sense. If there is lower than average employee turnover, all of the virtuous, reinforcing cycles have a chance of taking off.



# SERVICE RETENTION THEORY



\*DIRTFT = do it right the first time

# All the Reasons We Can't...

- “Business is tough, we **can't afford raises** let alone educational expenses.”
- “In our best years, we have tried general training, but with **no measurable results**. Education is only stimulating to a few and then they leave for more upscale jobs before we can get a return on our investment.”
- “We don't **budget education**. We choose from what suppliers offer. We occasionally accommodate requests from go-getter employees who press us to pay for some educational needs that they might have.”
- “The only distributors that do formal educational training are the big chains and truck dealers, and they **lose their best people** to the rest of the industry all of the time.”

# A Strategic Hurdle...

Most companies in the heavy duty business reward and promote people for:

- Fine-tuning the past
- Knowing all of the answers to the old questions and problems, and
- Keeping costs low by not trying anything new that might fail and cost more;

*Experimentation resources and failures are not in the budget!*

# MAKE GOOD MISTAKES

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1. **Plan it:**      **Certify the benefits**  
**Max. upside; Min. downside**  
**Design a good experiment**
2. **Do it:**      **Cheaply, carefully if possible**
3. **Learn**
4. **Try again**      **Smarter**
5. **Teach and role model**      **“Good Mistakes”**

## **NEW PROBLEMS TO SOLVE**

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### **Problems**

### **Solutions**

**1. Known**

**Known**

**2. Known**

**Not sure**

**3. (Unknown surprises; opportunities)**

# The Single Biggest Challenge

- What if we don't have people with the right aptitude and attitude to be at least top 10% performers
- Many can't cope with the new pressure of being **measurably accountable at the individual and peer group** level for continuous improvement responsibility.
- We just have to be prepared for some percent to be **passive dependent types** who really just want to show up, be given the benefit of the doubt and be taken care of.
- Trying to migrate from average wages, average outputs and low individual responsibility to all "highs" is **the single biggest challenge** for a heavy duty distributor (or Manufacturer) who is trying to move to high performance.

# POWER OF ONE

- Make a commitment to a positive, “**I Will**” spirit
- Identify what you can do;
- Increase your industry knowledge;
- Get to know your customer’s business;
- Become distribution and computer literate;
- Know the costs in your area;
- Set goals for yourself;
- Measure your results;
- Take individual action– Fearlessly use your **POWER!**

# POWER OF ONE

Everyone in the organization has the power to make a difference.

Small changes often count heavily because, taken over time, their effect is often huge.

Positive individual efforts added together tend to reinforce each other and result in exponential positive results.



# Special Thanks

Be sure to check out

[www.merrifield.com](http://www.merrifield.com)

to keep up with the latest thoughts on evolving roles of distribution.

Bruce Merrifield provided some of the charts and most of the inspiration for this presentation.







# Distributor Survival IQ Quiz

**Questions to spark discussion and find out if you are all on the same page.**

**CAUTION: Be prepared for the consequences of these discussions**

# Distributor Survival IQ Quiz

**Do your profits come from your products or from your customers?**

**HINT...**If you are an exclusive distributor for a powerful manufacturer that assures that you are profitable, even after selling lots of customers at a loss, the rest of this question is moot.

# Distributor Survival IQ Quiz

**Who are your “best” accounts? How do you define them?**

- Do you have stated boundaries for deciding which mode of selling they should currently be with? Outside sales, tele-sales, house/direct mail, or “whole-tail” cash-n-carry?
- Do you sub-divide them by how much estimated operating profit you currently earn from them?
- Within the largest sub-group there will most likely be very profitable and very unprofitable customers; do all employees treat them the same or differently?
- Do you sub-divide customer segments and strata into why they buy (e.g. loyalty, best total value, or pure price)?
- Do you give any weighting of importance to how fast a customer has been growing and how fast they are likely to grow over the next 5 years?

# Distributor Survival IQ Quiz

**Do you agree or disagree with the following statements?**

- The top 20 % of our most profitable customers could generate between 120 to 150% of our profits; and the bottom 20% may costs us about 20 to 50% of our profits.
- The number of customers that are both high profit and high growth are very few, but they should make an enormous difference to us over the next 5 years if we can retain and further penetrate them.



# Distributor Survival IQ Quiz

**How do you define, measure and act on customer knowledge?**

- Do you measure retention and defection rates for your existing customer base?
- What are you doing to improve the retention rate of the right types of customers?
- What are you doing to make losing customers either profitable or voluntarily leave for another supplier?
- Do you have a minimum profitability goal or level per customer per niche (strata)?
- How long do you allow for a customer's lack of profitability to be cured one way or the other?

# Distributor Survival IQ Quiz

- How do you continually research, strategize and cover as a team: target accounts, most profitable accounts, biggest losing accounts?
- Who are the 1 or 2% of the customers in your number one niche that are the most innovative, demanding customers that will do experiments with you on new, service value ideas (“learning relationships”, “co-created value”)?
- What are the experiments that you currently have underway? What is the process for how you scale the winning experiments to more customers with similar need opportunities?

# Distributor Survival IQ Quiz

- Are there other types of either outsourced service providers or miscellaneous goods suppliers that are common to two or more of your most profitable, progressive customers?  
Can you:
  - “ strike a marketing alliance with those suppliers for your shared customer bases
  - “ buy them and introduce them to the rest of your similar customers
  - “ or, replace them with your own in-house capability?

# Distributor Survival IQ Quiz

- There are two ways to estimate what your share of a customer's total volume is. How do you estimate:
  - " share of traditional products sold?
  - " share of expanded supplier spend?
- Do you offer special considerations for smaller, profitable accounts who are totally loyal and cooperative with you?
- Who are your major competitors for your target niche(s)? What competitive edges do they have over you on a niche by niche basis? You over them?

# Distributor Survival IQ Quiz

- What are the top 3 specific attributes of your total service proposition to your most profitable, #1 niche customers that differentiate you from your toughest competitor... according to your customers' assessment? How big an edge do you have for these attributes? How sustainable are these edges?
- What 40% of your total marketing support expenditures deliver only 10% or less of your target customers' perceived value benefit? How are you rethinking these poorly focused expenditures?

# **Distributor Survival IQ Quiz**

- Do you make simple, approximate lifetime profit stream valuations for key accounts?
- What would happen to the profitability and sales revenue levels of one of your target niches if you raised your prices 1% on average across the niche?

# **Distributor Survival IQ Quiz**

**For getting all employees to be part of the total service value improvement solution (“alignment”), do they know the answers to these questions:**

- Describe in detail our number one target niche of customers?
- Who are the five most profitable customers within that niche (by memory!)?
- What are the exact service metric goals to be achieved to become the best “total value” supplier to that niche?
- Define what “lowest total procurement cost (TPC) value” is? How can we offer the lowest TPC if our price is higher than a competitor’s?

# Distributor Survival IQ Quiz

**For getting all employees to be part of the total service value improvement solution:**

- How do distributors lower the end-users “total procurement cost” if our price to the end-user is higher than a direct purchase?
- How do distributors lower the “total sales and service costs” for suppliers so that they shouldn’t want to sell direct?
- Why is the answer “yes” to whatever a most profitable or target account may request of you? Have you been trained and empowered to see and hear opportunities to help expend extra effort for these customers?
- How are high pay for your job niche and long-term career security and growth paid for by high service value productivity for which you are part of the solution?



# **Distributor Survival IQ Quiz**

**To support the company's effort to marry the right, growing customers within a common-needs, target niche of customers, what is top management doing to:**

Have information systems that measure customer profitability and service metric scores that:

- force top management discussion about changing traditional mindsets and practices to reinvest the company's resources into more profitable practices?
- (when eventually shared with all employees) will help everyone to re-align on a daily disciplined basis and create sustainable customer service value and profit power?

# Distributor Survival IQ Quiz

**To support the company's efforts, do you have metrics and incentives to:**

Help traditional managers discard “comfort-zones” and have “dialogue” about switching from...

- a product/sales/geographic volume driven,
- promotion culture

... to one that is re-organized around retaining and better targeting profitable customers within one niche at a time?

# Distributor Survival IQ Quiz

**To support the company's efforts, do you have metrics and incentives to:**

- Educate all employees about the inter-related opportunities of:
  - “ customer profitability insights
  - “ better customer segmentation
  - “ better definition of “service value” for the right customers
  - “ how to achieve higher productivity through better strategic value creation and marketing to reward all stakeholders ever better

# **Distributor Survival IQ Quiz**

**To support the company's efforts, do you have metrics and incentives to:**

- Resist putting in supplier product line extensions that aren't needed by your target customers?
- Add new incremental suppliers and items to more perfectly tune one-stop-shop, highest fill rate service performance for your target niche(s)?
- Resist all supplier channel-loading, product pushing promotions that involve offering buy-now (and more) discounts to end-users?
- Have outside sales people spending the great majority of their time selling, installing and documenting savings in total procurement cost reduction purchasing systems?