

Merrifield Act II

Insights Into Quantum Profit Management

Exhibit 1

PBIT RANKING NOTES

- I. Analysis/action
 - A. Any homogeneous group within top 10 most profitable?
 1. Our #1 historically best niche?
 2. Forced us into 1-stop-shop array of items, well-stocked, frequently ordered allows for higher fill rates too.
 - B. Best defense a good offense. Steps to take:
 1. Interview top 10, to retune total product offering
 2. What are our: expected, extra and/or niche-specific services?
 3. Team-sell to build multi-strand relationship rope (magic act push-back?)
 - C. Biggest losers → Winners (Lead → Gold)
 1. What are the hidden costs with lots of small orders for them?
 2. Do they think they buy and pick-up for free (too)?
 3. Offer an audit to: lower your “TPC” and boost productivity
 4. Retune their purchasing assumptions and “system” and sell more
 5. Batting averages:

20 – 30%!	Yes! Buy more
50% +	OK, but volume follows more slowly
20%	No! So? What should we do? “It depends”
 - D. What to do with the other 80% of all accounts that are marginally profitable or un-profitable?
 1. Segment to sell and serve differently
 - a. Where are the boundary lines for A, B, C and D?
 - b. Rethinking your marketing, selling skills and allocation?
 2. How to manage the small customer and/or order problem?

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Exhibit 1 continued

II. Small order opportunity

A. “What if” stats:

1. Bottom 40% of all transactions → 5% of GM\$
but, take 40% of operational cost load
2. 40% transaction → 10%; 5% of GM\$ → 3% GM\$
(30% operational slack) + (2% GM\$ leave!)

B. Divide and conquer

1. Stop making in-house small orders
 - a. Splinter products and customers?
 - b. Don't back-order a small order, if OK with customer
 - c. Same day receiving (+) 95% cycle accuracy on A's
 - d. Good substitution skills (+) correct demand assignment
 - e. ?
2. Big customers with “good” (?) average order size?
 - a. “Do nothing” (?)
 - b. Reps constantly tune systems for “good target order size zone” (an incentive plan)
3. Small customer, small order → re-segment, re-price and re-term
(e.g. special orders?)
4. Big offenders → visit and audit → retune and sell more

III. The salesforce?

A. ABC Supply's A, B, C, D customer breakdown of 1105 accounts “called on” by 13 sales reps.

Strata	Sales/year	# of Accounts
A	24K +	256
B	12 – 24K	187
C	3 – 12K	501
D	0 – 3K	200

How many outside sales people to cover 256 A accounts? 13?

B. See spreadsheet stats (Exhibit 1)

1. What to do with 7 “un-profitable” territories?
2. Relationship between GM% and PBIT/territory?

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ABC Bakery Supply Case Study (Ranked by Column 8)

Exhibit 2

1	2	3	4	5		6	7	8	9
Sales Rep	# of Accts	\$ Sales	Gross Margin	GM %	# of trxs.	GM\$/trx.	Profit Factor	PBIT	PBIT/trx.
1	4	1437691.53	268761.28	18.6939461	357	752.83	140.78	221637.28	620.83
2	80	1692797.60	291184.8	17.2013949	1063	273.93	47.12	150868.80	141.93
3	61	1085723.29	211375.82	19.4686640	663	318.82	62.17	123859.82	186.82
4	180	3387318.35	673083.27	19.8706823	3032	140.52	27.96	40803.27	8.52
5	89	1552267.47	343176.52	22.1080790	2346	146.28	27.65	33504.52	14.28
6	?	1135571.02	229665.67	20.2246857	1569	146.38	29.57	22557.67	14.38
7	3	2436.31	532.55	21.8588767	7	76.08	16.66	-391.45	-55.92
8	48	98932.94	26554.22	26.8406255	240	110.64	29.65	-5125.78	-21.36
9	41	630343.37	130948.39	20.7741361	1067	122.73	25.53	-9895.61	-9.27
10	119	1209238.31	282505.31	23.3622527	2502	112.91	26.42	-47758.69	-19.09
11	196	3233877.09	610556.85	18.8800264	5175	117.98	22.30	-72543.15	-14.02
12	130	1403532.13	316240.10	22.5317321	3032	104.30	23.47	-83983.90	-17.70
13	154	2805491.02	528093.09	18.8235530	5003	105.56	19.85	-132302.91	-26.44
Totals	1105	19675220.43	3912677.87		26056			241229.87	

Column 8 = GM% x GM\$/transaction

Column 9 = GM\$ - [3 of invoices X \$132/invoice]