

Merrifield Act II

Insights Into Quantum Profit Management

REWEAVE THE 'KINETIC CHAIN'*

→ Hi. Value/low cost = profit & brand value

7. Incentives

6. Tools

5. Education (∏ Skills)

4. Great People (apt. for “growing to”)

3. Systems (simple, flex., friendly)

2. Strategy (vision, values, UMP, SCA)

1. Leadership (People)/Mgt. (Science)

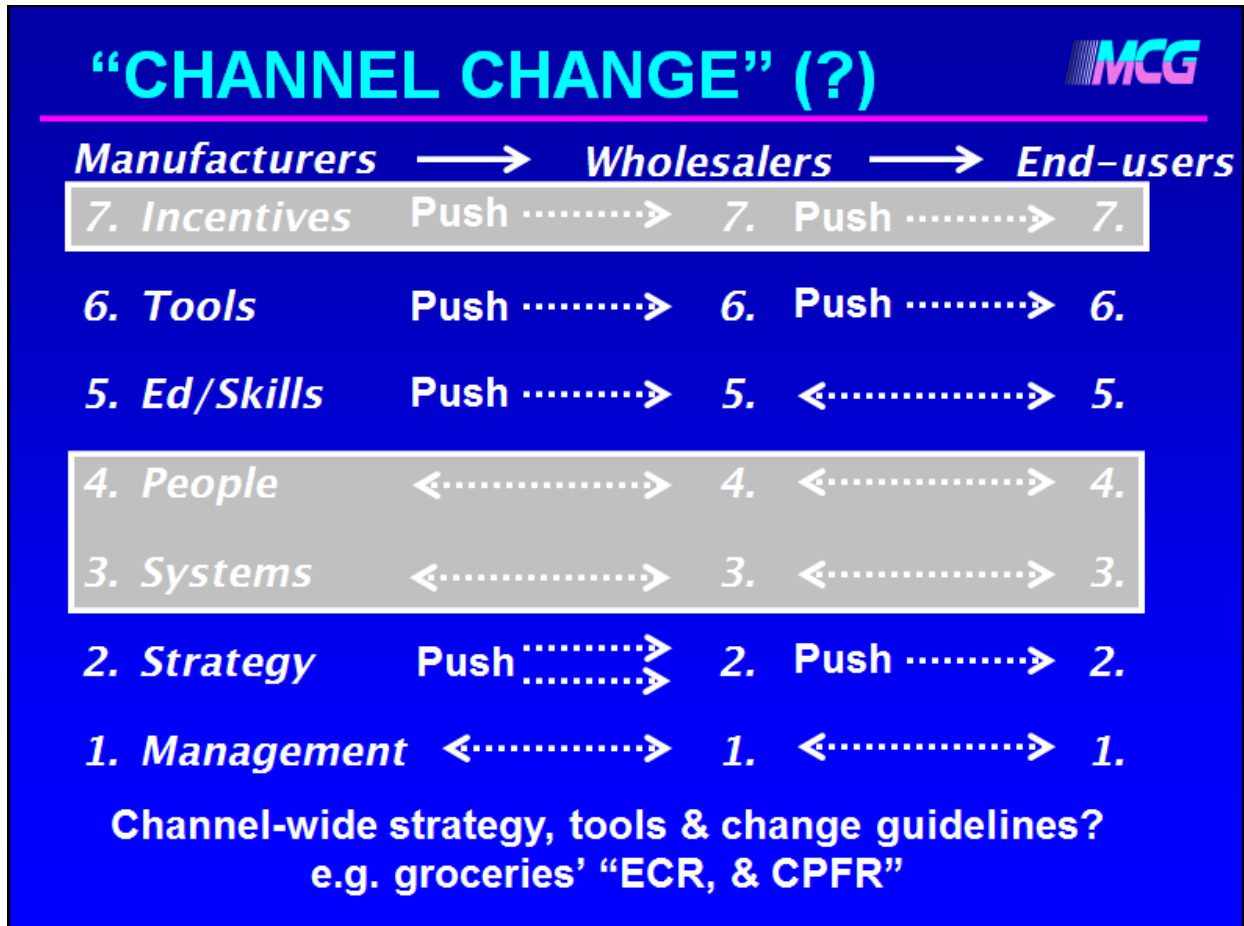
UMP - unique marketing proposition

SCA - sustainable competitive advantage

*Article 2.1

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This slide illustrates how the methods that emerge within an industry channel tend to prevent any player from changing their own kinetic chain significantly without getting big resistance from other channel members. When, for example, Dell started selling directly to the business world, the other PC manufacturers – IBM, HP, Compaq, etc. – couldn’t do the same because they had created a two-step channel with big wholesalers like Ingram Micro selling to lots of value-added dealers. Dell makes 100% of the profits in the PC industry off of about 25% of the total volume share; the rest lose money or break even.

When Wal-Mart declared that they didn’t want all kinds of channel promotions, but just one low net price that reflected all of the costs of creating and executing channel deals being taken out of the marked-up price, the packaged goods manufacturers took, on average, a long time to adjust. The manufacturers that quickly complied surged in volume with Wal-Mart. The laggards who said: “We can’t do that, because: all of our other retail customers still want the programs; our brokers wouldn’t be happy; etc.- – all took a big dive in market share. In a similar way, most mature channel players have been slow to switch from product promotion push-selling to demand-replenishment pull supply chain solutions driven by large end-users mature, repeat needs.