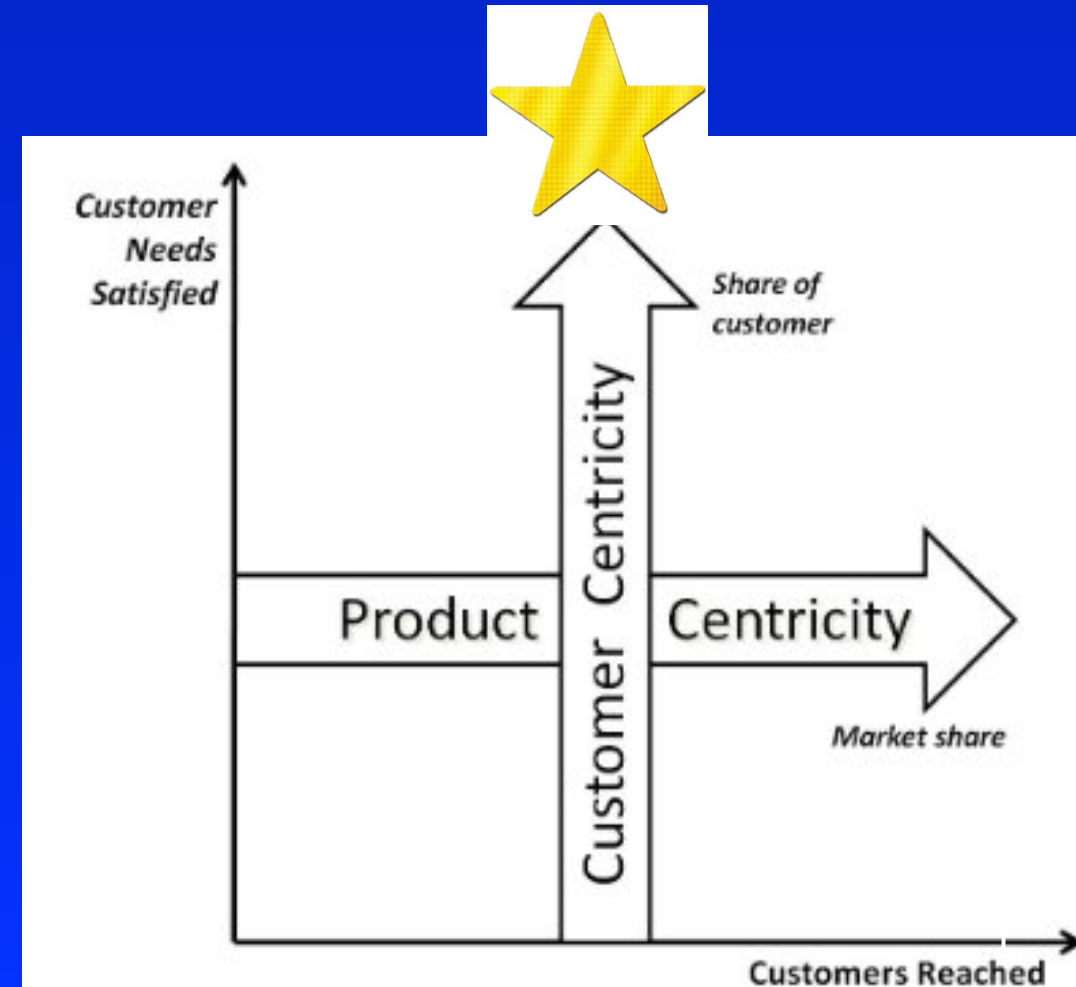


Service-Value Innovation Guidelines

APIC

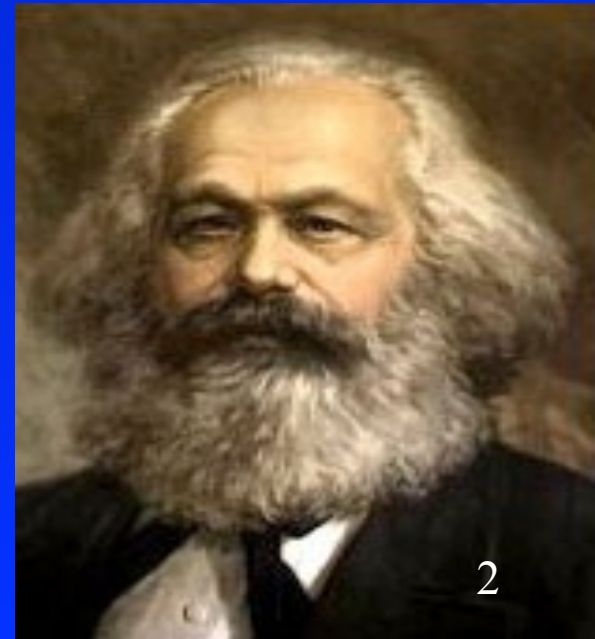
March 1, 2016

Scottsdale, AZ



Two Distributor Belief/Mindsets?

- Al Bates' 15-Yr.-Summary- Slide Facts:
 - Same, **Bottom-90%** average 7% **ROTA** for 15+ yrs.
 - Same **Top-5%** average 20%+ ROTA
- 90%: do herd “best practices” → Commodity Hell.
- 5% innovate on their own customer-centric paths.
- **60-80% of Premium Profits from innovation**
 - (*Karl Marx was right; blind to innovation*)
- Industry life-cycle inflexion point:
 - Market Share → Share of Best Customers



Product Specialists → 1-Stop Solution



Market Share

- Products/Brands = Value Source
- Sell Product Promo to All
- Have “unique” Products
- Sell to Customers
- Ever more customers (incr. losses!)
- Sneak up GM% (cause mistrust)
- Use Just-in-case, mass marketing about product deals

Share-of-Customer

- Customer Source of Sales
- Sell all SKUs to Target Customer
- Have unique solutions to niches
- Collaborate with customers
- Growing sales from growing, consolidator customers
- Open-book. Down cost-curve together for win-win (W/W) Profits
- Interact to co-create ever better W/W

Your First, Service-Value Trail To Blaze?

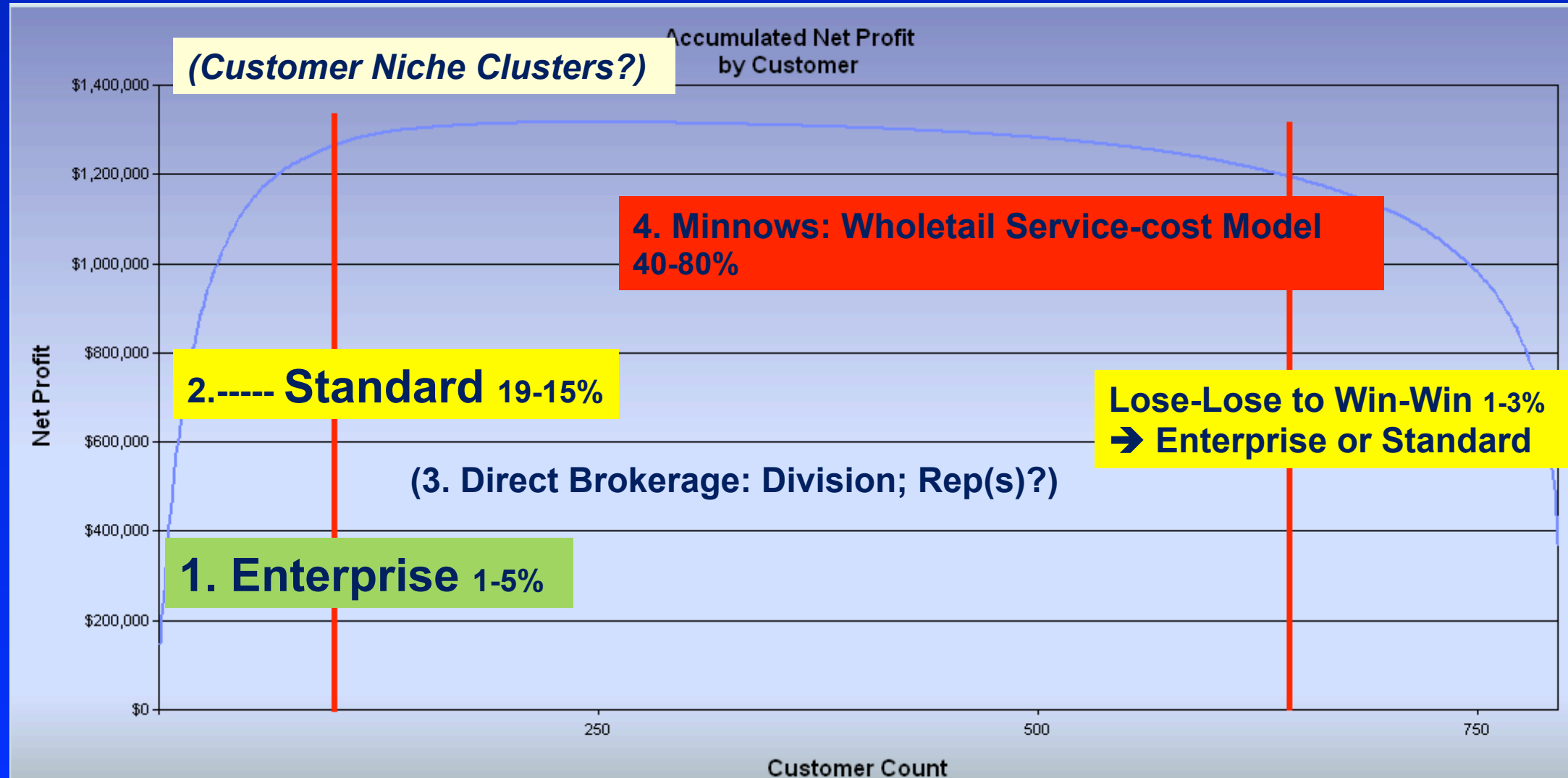


For #1, historically, most-profitable niche, re-invent service

STEPS:

1. Rank all customers by (estimated) Profitability?
 2. Group top 20% into niches
 3. Rank niches by profitability. Visit 5+ in #1 niche.
 4. *Uncover peculiar, but common-to-niche needs*
 5. Measure, engage, achieve, sell, win, partner
- Need a Cost-To-Serve (CTS) Model for steps 1-3.

Waypoint Client: Customer *Whale-Curve*



#9: Customer-Niche, Profit Ranking → Niche-Service → Account Share Gains



Rank Net Profit for All Customer Categories						
		Operating Profit	Accum	%		
1	(3) Low GM%!	\$949,078	\$949,078	56.7%	(2) 150	
2		\$241,904	\$1,190,983	14.5%		
3		\$216,072	\$1,407,054	12.9%		
4		\$145,669	\$1,552,724	8.7%		
5		\$71,085	\$1,623,809	4.2%		
6		\$28,823	\$1,652,632	1.7%		
7		\$10,505	\$1,663,136	0.6%		
8		\$9,291	\$1,672,427	0.6%		
9		\$1,283	\$1,673,710	0.1%		
10		(\$288)	\$1,673,422	(0.0%)		
11		(\$1,036)	\$1,672,386	(0.1%)		
12		(\$2,077)	\$1,670,308	(0.1%)		
13		(\$3,506)	\$1,666,802	(0.2%)		
14		(\$4,090)	\$1,662,712	(0.2%)		
15		(\$5,374)	\$1,657,338	(0.3%)		
16		(\$25,571)	\$1,631,767	(1.5%)		
17		(\$57,742)	\$1,574,025	(3.4%)		
18	(5) High GM% !	(\$283,720)	\$1,290,306	(17.0%)	(4) 1600: 95% Dying Minnows	
19		(\$364,030)	\$926,276	(21.7%)	(6) 30 Chains buy/ship to each store	
Total		\$1,673,710				

(7) Each Niche: Different “service metrics”!

(8) Service-Cost Models for: 1%; 20/80; and 80/19?

(9) Customer Life-Time Value (CLV) TO Noise Ratios?

(1) 4000 Active Accounts → 19 Niches

Magic Steps → 24 Months Later!

Rank NBC for All Customer Categories

		Customers	NBC	%	Accum	
1	Cor 949k → and R	147	4.0%	\$1,642,844	51.4%	\$1,642,844
2	Tire De 281K →	515	13.9%	\$875,315	27.4%	\$2,518,159
3	Commercial tire	60	1.6%	\$309,518	9.7%	\$2,827,677
4	Other	320	8.6%	\$170,300	5.3%	\$2,997,978
5	Car Dealer	105	2.8%	\$118,153	3.7%	\$3,116,131
6	UHP Tire Dealer	51	1.4%	\$29,875	0.9%	\$3,146,006
7	Truck Service	46	1.2%	\$25,469	0.8%	\$3,171,475
8	Municipality	66	1.8%	\$10,662	0.3%	\$3,182,137
9	Farm Tire Dealer	36	1.0%	\$6,403	0.2%	\$3,188,540
10	Non-Core Busines	257	6.9%	\$6,327	0.2%	\$3,194,867
11	Landscaper	49	1.3%	\$2,825	0.1%	\$3,197,692
12	take out	5	0.1%	\$1,365	0.0%	\$3,199,056
13	Motorcycle Shop	18	0.5%	(\$2,449)	(0.1%)	\$3,196,608
14	Golf Course	83	2.2%	(\$5,983)	(0.2%)	\$3,190,625
15	Used Tire Dealer	92	2.5%	(\$12,859)	(0.4%)	\$3,177,765
16	Equipment Dealer	174	4.7%	(\$23,559)	(0.7%)	\$3,154,206
17	Large Retail Cha	182	4.9%	(\$143,407)	(4.5%)	\$3,010,799
18	Auto Service	1,499	40.5%	(\$211,170)	(6.6%)	\$2,799,629
Total		3,705				\$3,199,056

Nice job on top 2 Niches
#18: New Minnow Model?
Courage on #17?

198/(274) → 182/(143) + 131 ?

1600 accts/(386) → 1500/(211); + 175 ?

1. Accts 4000 → 3705

2) 926K

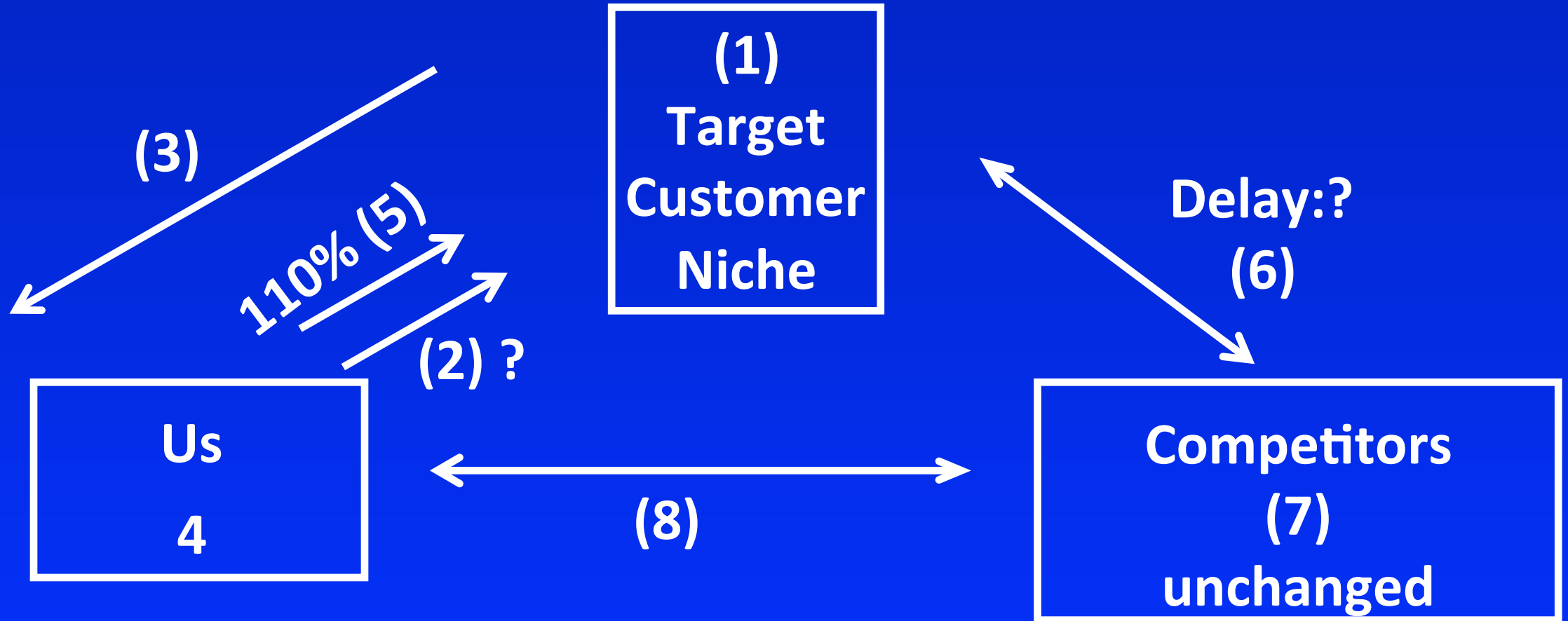
3X!

Before and After (gap) Questions



- Can you have niches of one to a few customers? (YES!)
- How to research: better basic and extra service needs?
- Then what? Execution steps?
- Resource allocations for: Enterprise v. Standard accounts?
- The economic boundary lines for:
 - Basic Service needs v. Extra (one-customer) Needs
 - What is bundled into price? Un-bundled for a profitable price?

How To Research New Value Opportunities?



Question, Listening Guidelines



- Visit 5+ - open, friendly, progressive -accounts.
- Be an anthropologist. Ask context, regimen Q's (e.g. stud-finder)
 - Gaps between process-steps: delays? Work-arounds? Ultimate customer hits?
 - Origins of existing (silo): metrics, response times, processes?
 - Why? What if... → Uptime, on-time, customers' customers retention
 - Any improvements for your: convenience, brownie pts, safety, stress (e.g. fast quotes..)
- Their buying objectives/metrics and trends?
 - Top few suppliers by spend: Why? Shifts for specific economic reasons?
 - Future vision for suppliers? Remove constraints. New service possibilities?
- What service events bothered you? (5-why's)
 - Negative effects? Downtime; productivity loss; your customer hits?
 - Opposite may be a service insight opportunity.

Goal: Metrics Like “Big 8 of Service Excellence”*



- 1) **Zero Errors** (credits/trx; est. mistakes/1K lines)
- 2) Net-Profit adjusted, **best fill-rates per niche** ('82 v. '15)
- 3) 95% daily **cycle count** on X, A+ SKU's
- 4) **Same-day receiving** → Hi'r fill rates (“days’ work, day’s time”)
- 5) 100% **On-Time Shipment** (mostly via UPS)
 - ***Response Times?*** Industrial; Contractor; Counter; Estimators...
 - **5pm → 6pm cut-off** for next AM delivery!!
- 6) Immediate **reconfirmation** of all ordered items
- 7) **Call-Backs** on any Order Deviation
- 8) Heroic **Recoveries** on any Mistakes. Plus more for key accounts!

YT5: 1 - 86

Service Upgrade: Execution Steps/Tactics

Chronological Steps:

1. Target Niche; 5+ visits
2. Define service metrics (“8”)
3. Measuring systems internally
4. Engage and Achieve
5. Sell TPC* Benefits
6. Get Paid for: “last-look +2”

For Enterprise Accounts+:

(partner-able service, so)

Pivot into “Partnering” with
SC-Math-based Tune-Ups

TACTICS:

Post: 10 Names, Pictures, Big 8

Memorize

Teach: Service Triage; Heroic Extras
VP Service + Guarantees

SC-Math Tune-Up Team (who pays?)

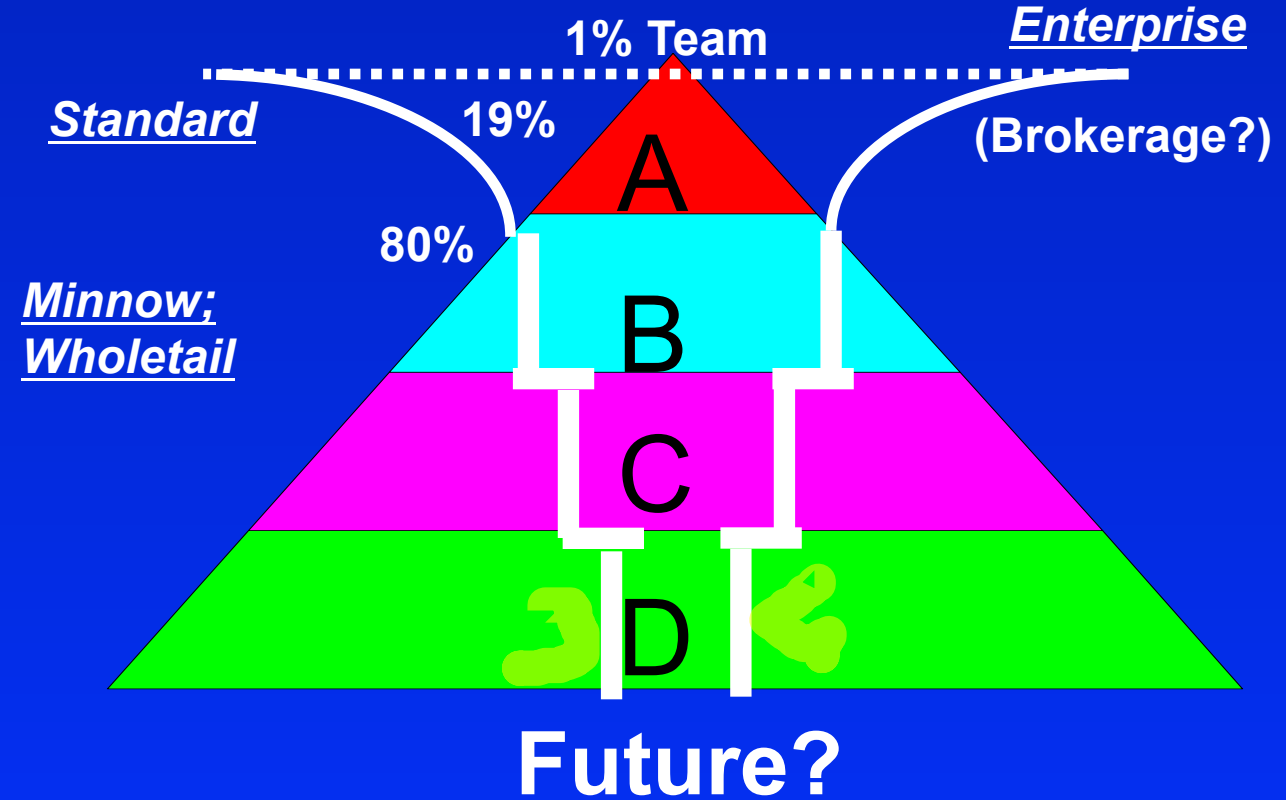
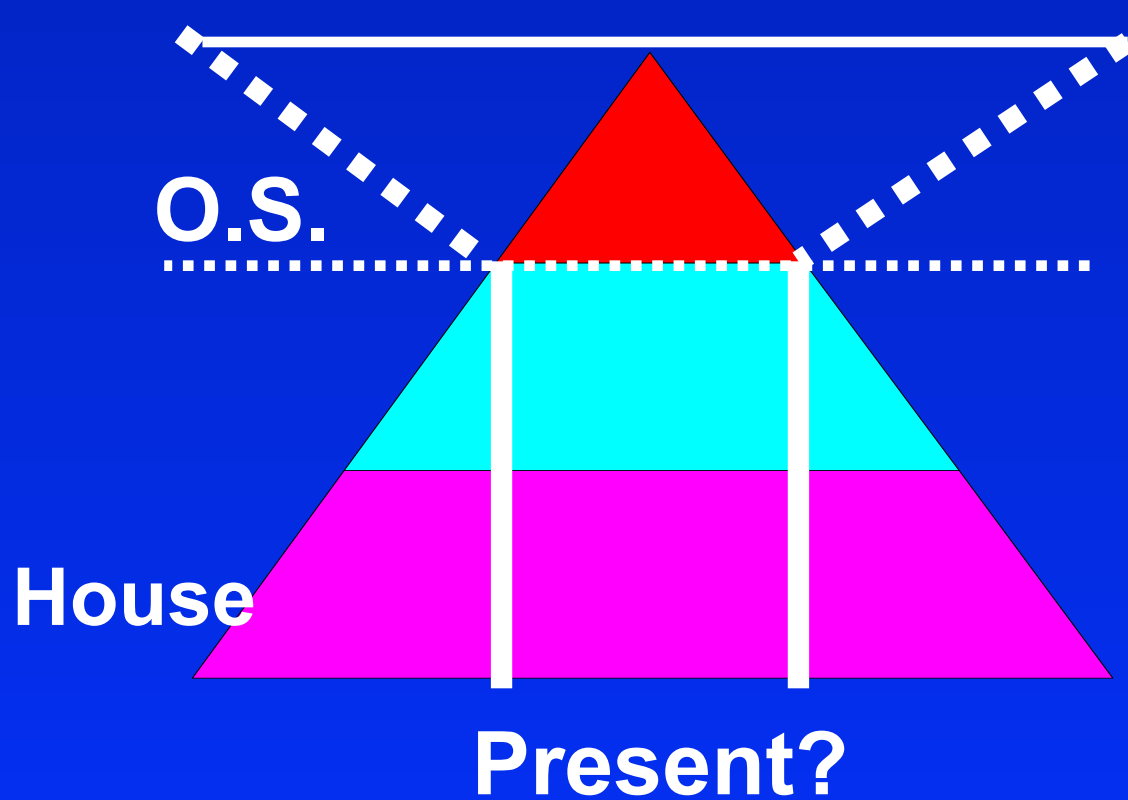
Rep comp per acct: salary + “delta”

Replenishment needs feed into
sufficient “MyWeb EOE”

*Delta-Profit Growth (and bonus) from
just 10 accounts can and will be huge.*

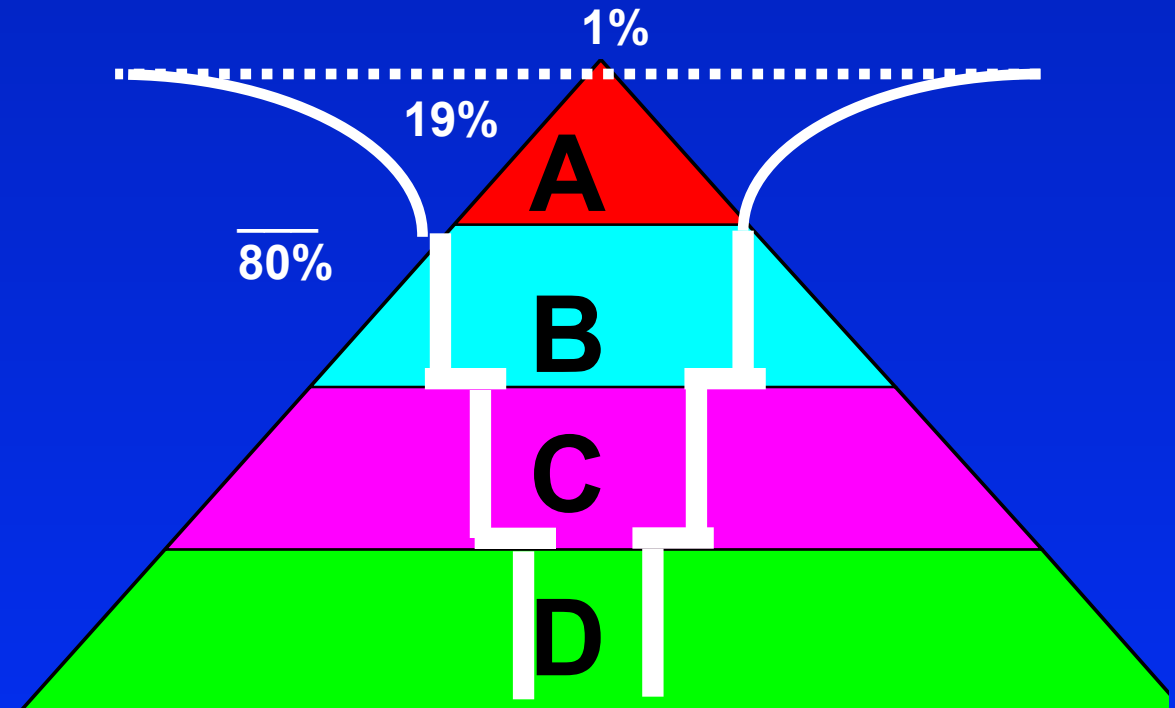
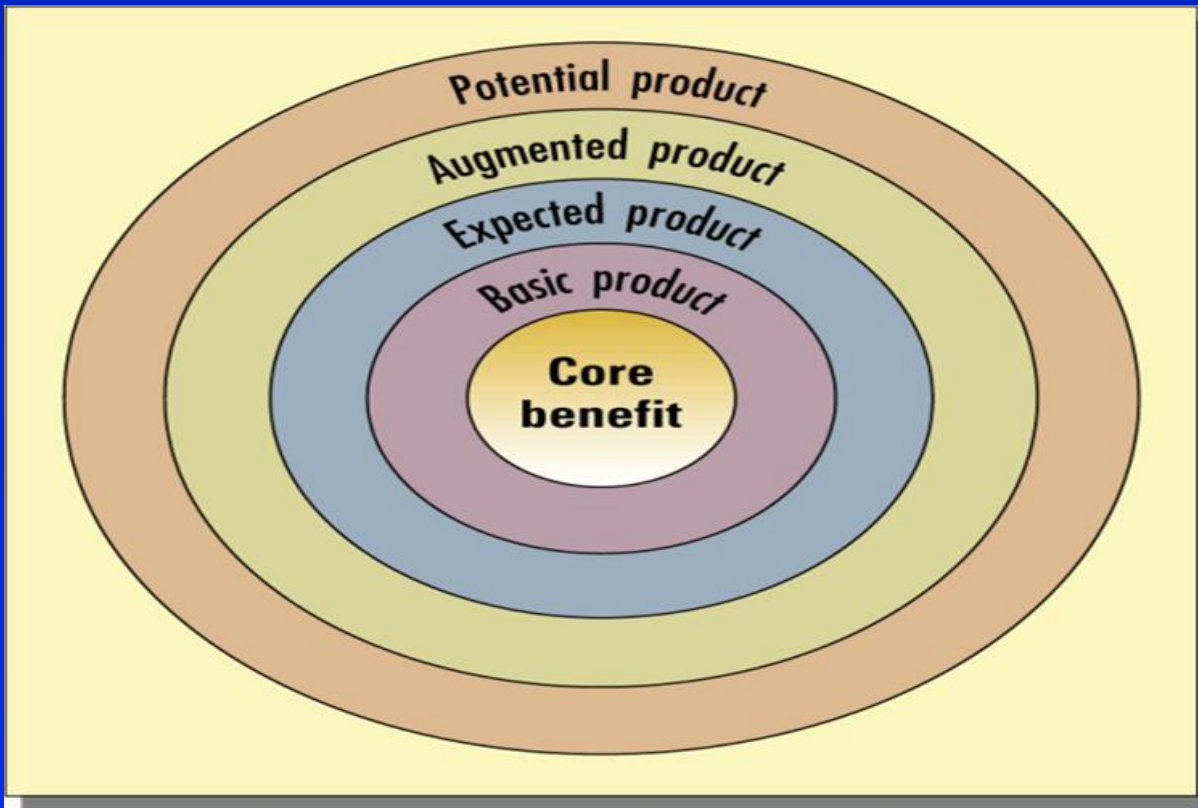
*TPC = Total Procurement Cost. Google: Merrifield + (any term)

Service Value Re-Allocation Maps: GM\$/month boundaries for A, B, C?



YT 4: 5-13

Service-Model-Cost Map Questions



**How to Bundle, Unbundle (Extra) Services
Within Different CTS Service Models?
Customer Profitability Will Decide!**

Product Innovation = SC Innovation



- *‘ER refinements: six-sigma copied, into containers + SC IT/ logistics:*
- 90% sales are “commodities”; SC innovations win! *History!*
 - WMT ('88-on) + Li & Fung from Asia
 - (Speed) Victoria's Secret to Zara (1000 hrs. → 5 days)
 - Printed Catalog + telemarketing → Web ('98-on WWG; Dell)
 - 2-step **Wholetailers**: Fastenal; Home Depot (for small \$ picks)
 - Integrated, MRO, Sole-Suppliers
- ***Now: AMZ's Site + Robots + 1-hour prime + Zip+4/hr.***
 - ***Digital infrastructure for Prime buyers in congested cities***
 - Millennials: ***24/7 JIT education/mobile ordering.*** No Reps!

Life-Cycle Evolution Of “Value-Added”



1. Products

2. Services (Basic, Extra, Custom)

3. Re-tune buy-sell processes

4. Process re-engineering

5. Facility management (“ISS”)

Seller's
Agent



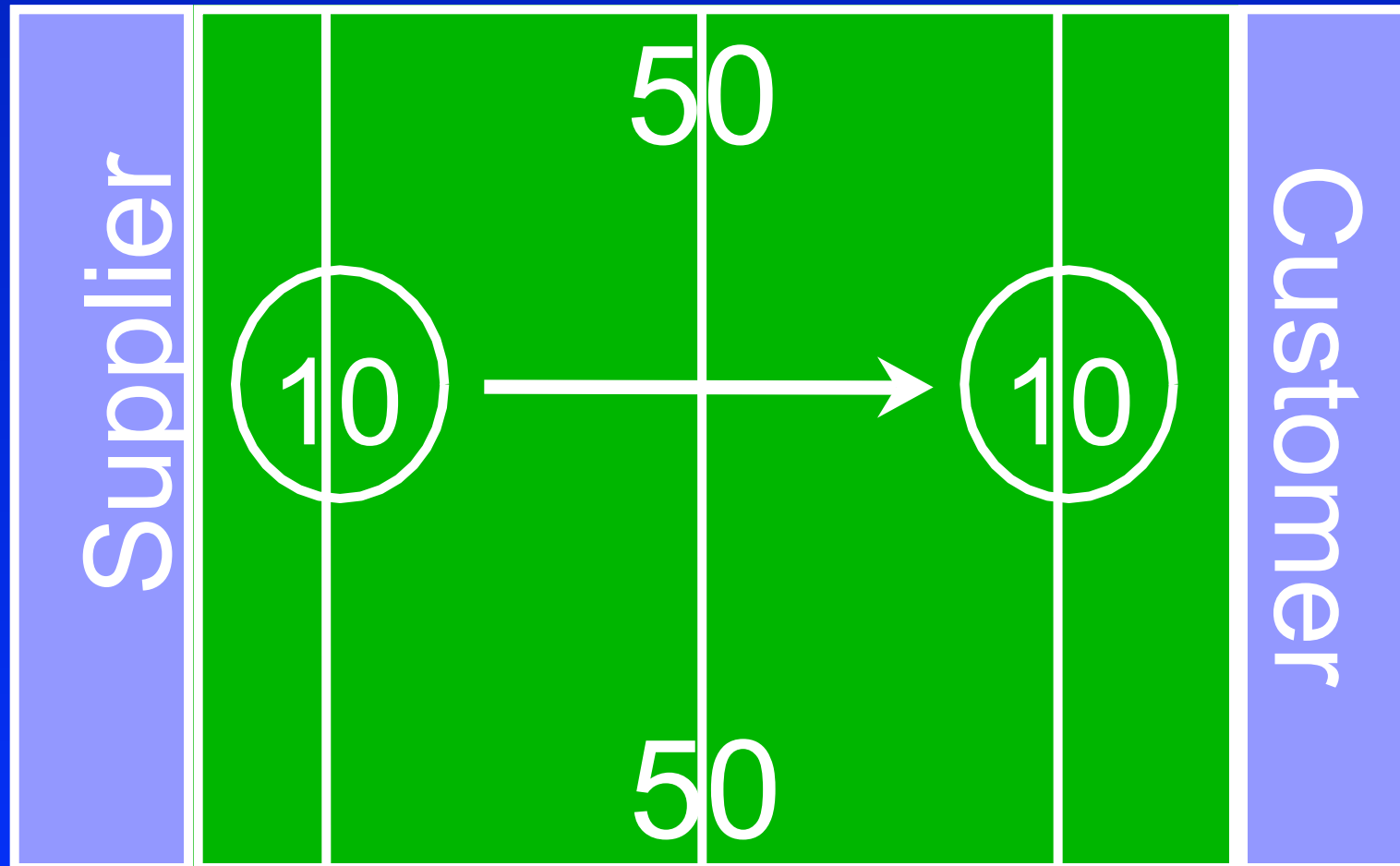
Buyer's
Agent

Selling skills/comp. for each step?

Product-Centric → Customer Profit Growth

Demand Creation → Low-Cost Replenishment; Uptime Productivity

Share of Market → Share of Best Profit (potential) Growing Customers



“Reps, Suppliers, etc. won’t like that”. **NOT CUSTOMER CENTRIC!**

Invent from customer needs backwards. Reps/Suppliers win, by embracing new solutions.

Overall Customer-Centric Road Map (don't panic)

Hire/engage/grow: “achievers”

(+)

Voice of 10
Give Cred
Get Buy-In

I

Customer-niche
focused,
service- culture

Line of Sight
#s: gainshar'g

Quick,
Tweaks Work

II

1) Basic service brilliance
2) Sell Service Value Chain #'s

YT 5: 1-86

Start Here: 10↑

III

Partner win-win
customers

→ V

Nichonomic
Growth/Profits

YT 4: 1-57

In Conclusion....

- 90% of sales are on commodities. Need a real, service edge!
- SC innovations are eating up Old, Product-centric Selling
- Protect and partner your historic profits with...
- ...Customer (niche) centric basic and extra service
- High-Yield results come with customer profitability analytics
 - Feast first on Best-Practice, traditional competitors
 - Your infrastructure + SC/Service value-selling will fend off outsiders too
- You can lead the way with support from the APIC community.

