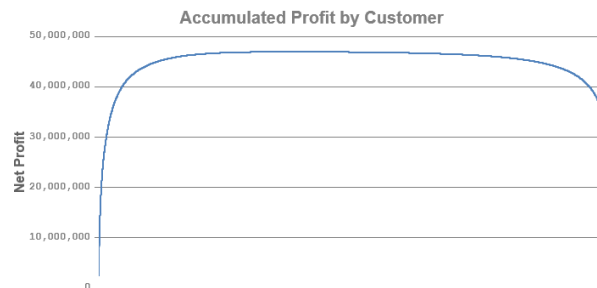


Service-Value Innovation Guidelines

APIC
September 22, 2016
Toronto, CA

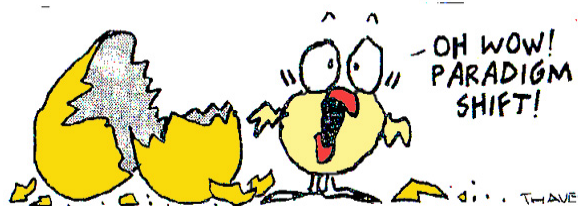


“Good Service is our Edge”

38% Accts/194% ← → 62% (94) = 100/100

Really? Then,.....

- Peculiar metrics per customer niche(s)?
- Unconditional guarantees?
- Boundaries for Service-Models?
- Dynamic-Triage for High-Profit Accounts?
- **In 90% with weak, long-term ROTA? →**



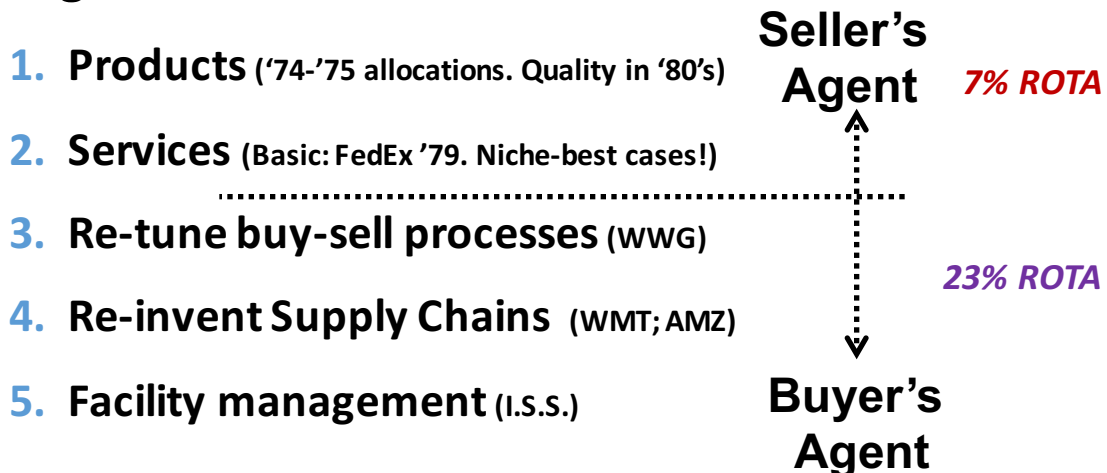
1

Weak ROTA? Guideline #1: Financial Beliefs Fall Short

- Al Bates' 15-Yr.-Summary- Slide Facts:
 - **Same**, Bottom-90% average 7% ROTA for 15+ yrs.
 - **Same** Top-5% average 20%+ ROTA
- ROTA = Op. Profit / Total Assets
Productivity = Output \$\$ / Input \$\$
- 90%?: do herd “best practices” → Commodity Hell.
 - Financial Management guidelines: Buy Low....and Sell More (promo's)
 - **GL #2**: Volume is Vanity. Profit, sanity. Free Cash-Flow from “moats”: heaven!
 - 5%? **GL #3** Innovate on your own, customer-centric-value path
 - 60-80% of any Premium Profits come from “innovation”
 - **GL #4**: Strategy includes: who you sell best and don't sell.

2

Life-Cycle of "Service Value". GL #5: Keep Adding!

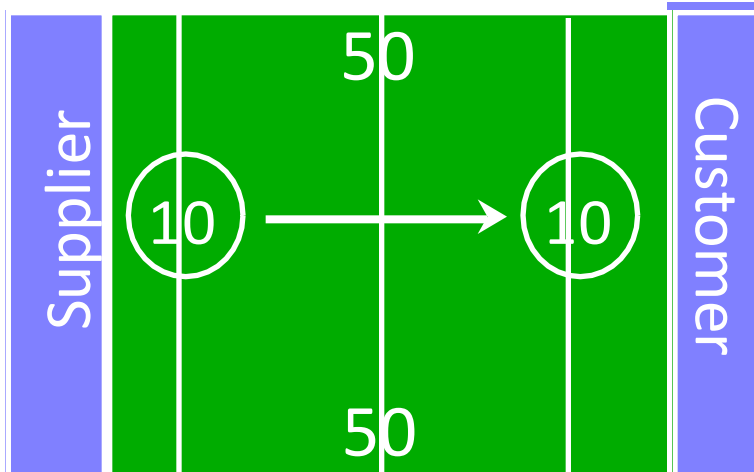


Selling-skill Upgrades for each step?

WHERE ARE YOU ON THE FIELD?

GL #6: Start with Customer Needs and re-invent back to suppliers

FIN. MGT/ GL'S:
Sell all to all.
 1-more order...
Busi-Ness



INTEGRATED
 SOLE
 SUPPLY!

FOR ENTIRE
 CHANNELS!

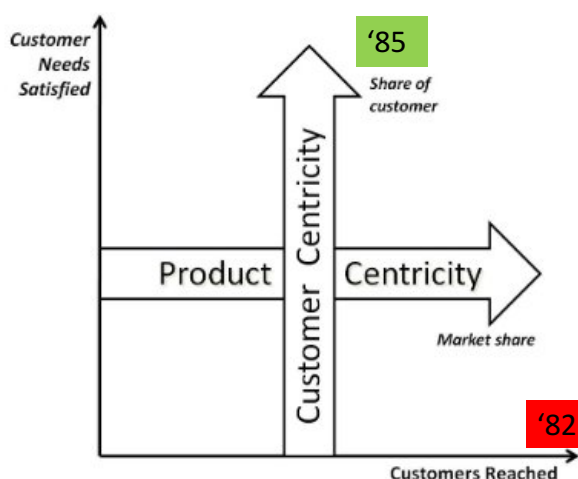
McD's Open-
 Book Buying!

WMT 11/91
 No Reps!



"Reps, etc. won't like that". NOT CUSTOMER CENTRIC!

Turnaround Case – Stats:



- **1982:**
 - \$7MM in Sales → **(\$120K)**
 - 3000 active accounts
 - 9 Milkmen reps (with other jobs?)
 - 20% customers → 140% profits
- **1985:**
 - \$24MM in Sales → \$1.2MM (5%)
 - 1000 active accounts
 - 4 Hunters + 4 Farmers
 - All Stakeholders: Richer/Engaged *Supplier promo's Rebates, etc.?*
- **GL#7: Switch from: Sell some to all to: Sell all to Best in each Niche (and size strata) (5% transactional → Synergistic partners)**

Profit *Power-Laws* Guide 5-year Growth Plan

- 20% Customers → 80% sales. (*"Pareto" Italian land owners 1906*)
- Top 20-40% Customers → 120-150% of Profit \$s
 - Top 1% → 30%+ (some may have partnered you with 100% share)
 - Top 10% much more spend potential to earn, perhaps partner.
- Bottom 1% → **(20%+)** Small-dollar, picks/orders → Lose-Lose costs.
- 4% of Customers innovators → 80% of next 5-year's Profit-Growth
 - Partner and they grow you. Most likely to co-invent, win-win path!
- 1%: financial-consolidators have mixed partnering record
- 30-50%: Self-employed minnows. Moribund. Currently losers.

GL #8: Focus Service innovation with Power-Law Insights

GL #9. Use next-level Information to Investigate High-Yield Customers

- Your current Cost-To-Serve (CTS) model and assumptions?
 - Get **"Profit Equations" (PE)**. **GM\$s (-) CT\$s (=) P\$s** (no GM%!)
 - Customer profitability is a symptom of what root causes?
 - 5-Why, deep-dive tools reveal fixes for too many small-dollar lines, orders
- Top 50+ customers: fall into niches with common needs?
 - Re-tune one-stop-shop SKU Fill Rates
 - Common peculiarities e.g. *Response Times*
 - Sum up profits for each niche-cluster and rank them.

Waypoint client case example →

Customer-Niche, Profit Ranking (initial)

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%			(7) Each Niche: Different "service metrics"!
6	\$28,823	\$1,652,632	1.7%			
7	\$10,505	\$1,663,136	0.6%			
8	\$9,291	\$1,672,427	0.6%			(8) Service-Cost Models for: 1%; 20/80; and 80/19?
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%)			(9) Customer Life-Time Value (CLV) TO Noise Ratios?
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					

(1) 4000 Active Accounts → 19 Niches

“Miracle Happens” → 24 Months Later!

Rank NBC for All Customer Categories						
	Customers	NBC	%	Accum		
1	147 949k →	\$1,642,844	51.4%	\$1,642,844	+5/	4693K
2	515 13.9%	\$875,315	27.4%	\$2,518,159		+12/+594K
3	60 1.6%	\$309,518	9.7%	\$2,827,677		
4	320 8.6%	\$170,300	5.3%	\$2,997,978		
5	105 2.8%	\$118,153	3.7%	\$3,116,131		
6	51 1.4%	\$29,875	0.9%	\$3,146,006		
7	46 1.2%	\$25,469	0.8%	\$3,171,475		
8	66 1.8%	\$10,662	0.3%	\$3,182,137		
9	36 1.0%	\$6,403	0.2%	\$3,188,540		
10	257 6.9%	\$6,327	0.2%	\$3,194,867		
11	49 1.3%	\$2,825	0.1%	\$3,197,692		
12	5 0.1%	\$1,365	0.0%	\$3,199,056		
13	18 0.5%	(\$2,449)	(0.1%)	\$3,196,608		
14	83 2.2%	(\$5,983)	(0.2%)	\$3,190,625		
15	92 2.5%	(\$12,859)	(0.4%)	\$3,177,765		
16	174 4.7%	(\$23,559)	(0.7%)	\$3,154,206		
17	182 4.9%	(\$143,407)	(4.5%)	\$3,010,799		198/(274) → 182/(143) + 131 ?
18	1,495 (283)K →	(\$211,170)	(6.6%)	\$2,799,629		1600 accts/(386) → 1500/(211); + 175 ?
Total		3,705				
1. Accts 4000 → 3705				2) 926K		3X!

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

GL #10: Re-invent “Service” for #1, profit-niche!

(Or, Top Customer(s))

STEPS:

1. Rank all customers by (estimated) Profitability?
2. Group top 50+ into niches
3. Rank niches by profitability. Visit 5+ in #1 niche.
4. *Uncover peculiar, but common-to-niche needs (or: **Audit/weeds***)*
5. Distill (8) Metrics. Engage all to achieve. Sell, win, maybe partner.

GL#11. Have Cost-To-Serve (CTS) – model, tools, fluency - for these steps. (Conceive, Believe, Achieve hurdles)

* Blog: CEO Key Call...5/3/16 at www.merrifieldact2.com

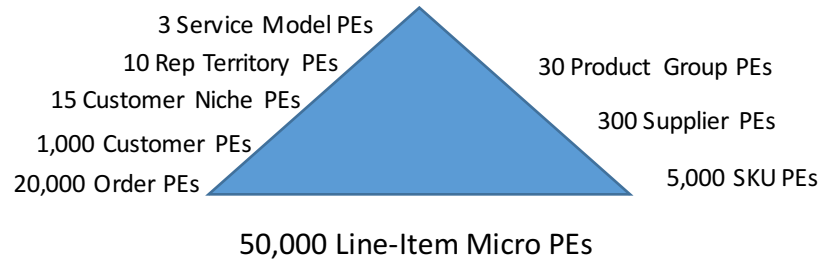


...for CTS
SKIM review.
Next 5 slides

Pyramid of Profit Equations (PEs)

GM- $\$s$ (less) CTS- $\$s$ (equals) Profit- $\$s$

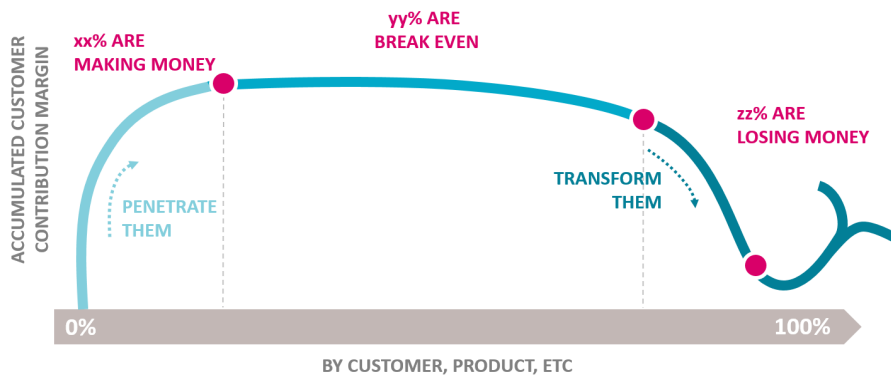
Year End P&L = Macro PE: e.g. GM(25%) – CTS (22%) = 3%



Quantum Profit Data (QPD):

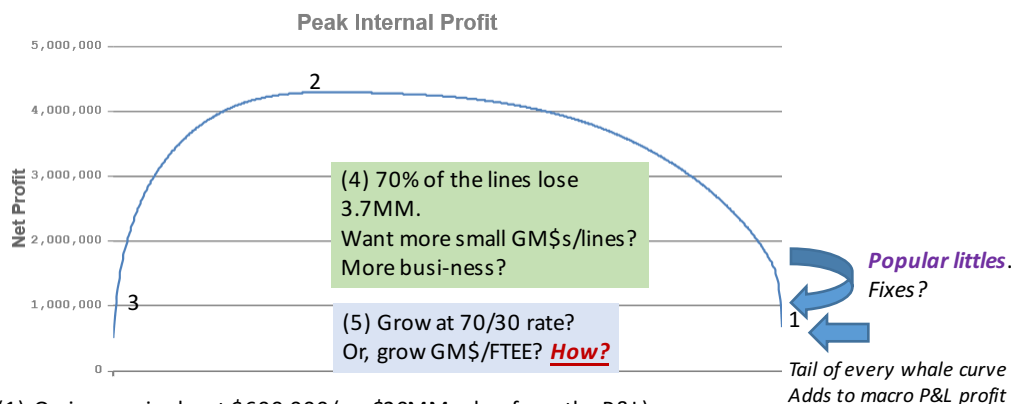
Smallest indivisible unit of profit or loss *Micro PEs* add to higher-level, *Mini PEs*

Plot Profit-Equations: “Whale Curves”



#4*: Whale Curve for Line Items

GM \$'s – CTS \$'s = Profit \$'s per line

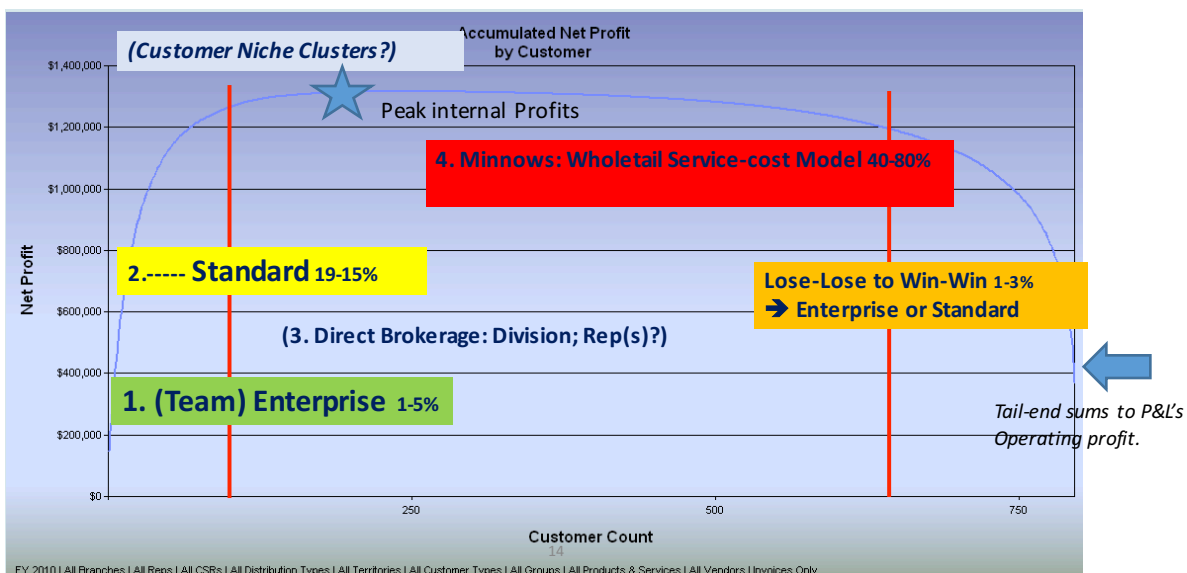


- (1) Op income is about \$600,000 (on \$20MM sales; from the P&L)
- (2) Peak Internal Profits (PiP) are \$4.3MM from just about 30% of the line events.
- (3) If we ranked the top 100+ profitable lines: patterns, insights, experiments?

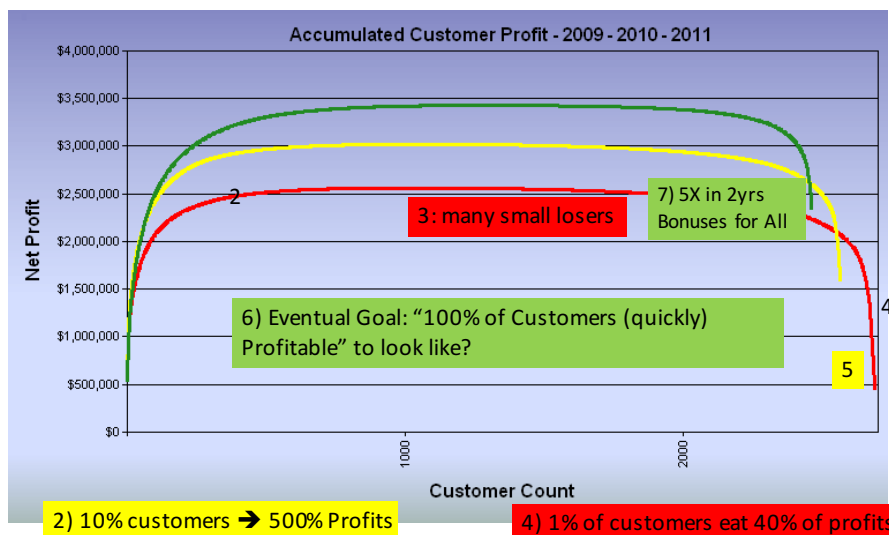
* [CTS-Math Course Lesson](http://www.iklarity-courses.thinkific.com/courses/cts-math-participant-edition). <http://www.iklarity-courses.thinkific.com/courses/cts-math-participant-edition>

Customer Whale-Curve GLs:

(#12) 3-4 Service Models; (#13) Innovate at Extremes



#6: Customer Whale-Curve; New-Play Results over 24 Months

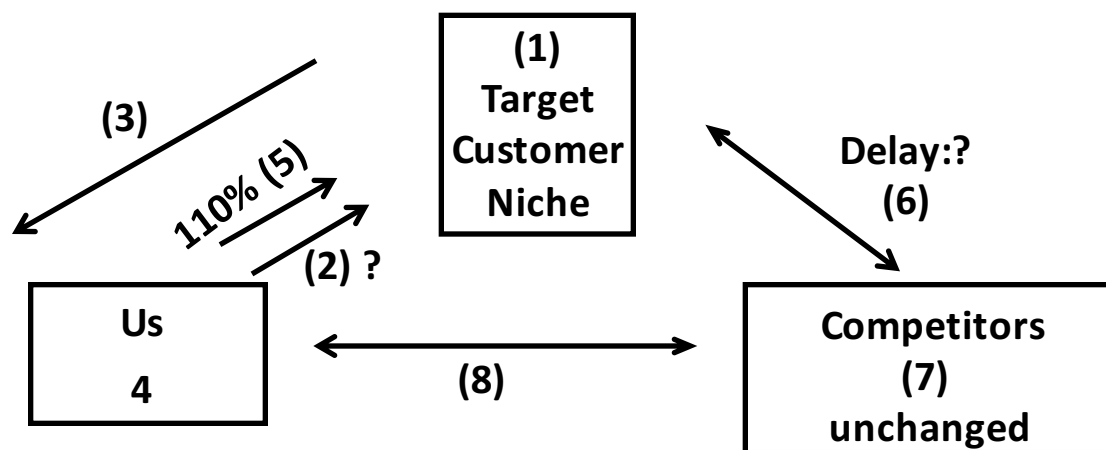


Guidelines from Niche-Ranking Report

- *GL #14. Don't over-serve, under-price, lose on minnows' **Busi-ness**.*
 - Loyal to your subsidies. But, **Busi-ness consumes all proactive intent**.
- *GL #15. Stop under-serving, over-pricing Most Profitable Accounts*
- *GL #16. Transform super-loser, big accounts with their buying stats.*
 - Turn lose-lose activity costs into win-win++ savings for both parties.
- *GL # 17. Reallocate resources by customer (profit) potential*
 - Stop being a – reactive, democratic, one-speed, cross-subsidizing, standard-service – company.
 - Have 3-4 Service Models. For niches: tuned Services and Metrics
 - Listen to best accounts more deeply to re-tune service metrics

BUT, HOW?

(skim how to's) **Research New-Value Opportunities?**





YT playlist #4 lesson 16 of 40+ on Nichonomics

(Skim) Investigation *Guidelines #18 a-c*

- A. Visit **5+** - open, friendly, progressive -accounts.
- B. Be an **anthropologist**. Ask context, regimen/experience Q's (*e.g. stud-finder; iPod*)
- Gaps between process-steps: **delays**? Work-arounds? Assume no constraints? Imagine?
 - How to get more uptime, on-time, customer's customer benefits?
 - Silo Owner Benefits? Metric? Convenience? Brownie points? Safety? Stress? (*e.g. fast quotes..*)
 - Stories of supplier frustrations? Opposite equals service-insight opportunity?
- C. Questions for top Honcho? Big-Picture buying objectives/metrics and trends:
- Top few suppliers by spend: Why? Shifts for specific economic reasons? (*Old school?*)
 - Future vision for suppliers? Remove constraints? New service possibilities?

YT 4:17

GL # 19: Distill 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 (if not using own trucks)
 - *Response Times Vary!* 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!

*Ex. 3 at www.merrifield.com

DVD Course Sec 4
How to's of Big 8

Achieve Big 8? YT 5: 1 - 86

Niche, SKU-Tuning Assumptions

- Fill-rates are foundational to: *Service and Productivity*
- Investment (*critical-mass Inventory*) for best fill-rates for a target niche = ***Hidden, barrier to entry.***
 - Story: *“Inventory turns stink!”* No! Not enough Sales from Niche-Share to get turns!
- Can you get enough Niche-sales/share for:
 - Good turns and ...
 - *Re-buy frequency* to max fill-rates ***and*** minimize excess stock to meet freight deals
 - Capture 50-80% of Profit Pool for a target niche?
 - ***“Critical mass Sales”*** is a 2nd entry barrier. Get both for a ***Free-Cash-Flow “MOAT”***
- ***GL #20. Seek inventory and sales scale within customer niche(s).***

SKU Popularity/Profit Report



Qty	Avg Sell	Rev	GPS / GM%	NBC / %	Net	Lines Picked	Customers		
3,654	\$5.00	\$18,270	\$18,270	100.0%	\$13,919	76.2%	\$13,919	4,098	837
14,808	\$51.74	\$766,093	\$147,935	19.3%	(\$7,764)	-1.0%	(\$7,764)	4,019	670
8,278	\$51.38	\$425,361	\$77,774	18.3%	(\$16,658)	-3.9%	(\$16,658)	2,579	562
6,336	\$50.45	\$319,623	\$60,269	18.9%	(\$14,105)	-4.4%	(\$14,105)	2,132	478
3,884	\$58.42	\$226,892	\$39,808	17.5%	(\$14,303)	-6.3%	(\$14,303)	1,554	460
6,609	\$121.77	\$804,745	\$146,378	18.2%	\$83,936	10.4%	\$83,936	1,823	454
6,372	\$46.72	\$297,688	\$52,581	17.7%	(\$16,109)	-5.4%	(\$16,109)	1,996	453
7,336	\$8.62	\$63,268	\$27,750	43.9%	(\$16,271)	-25.7%	(\$16,271)	1,327	445
5,506	\$39.58	\$217,930	\$37,353	17.1%	(\$26,536)	-12.2%	(\$26,536)	1,834	430
4,018	\$58.06	\$233,270	\$53,537	23.0%	(\$307)	-1%	(\$307)	1,384	422

1. Ranked by number of customers that buy the item.
2. In top 10 items: 2 (green) are profitable; **8 (red) unprofitable**.

GL #21. Per Target Niche:

a) Beef the popular, profitable SKUs

b) Fix small-dollar/popular big-losers (multiple solutions).

Niche Service Innovation Summary

Chronological Steps:

1. Target Niche; 5+ visits
2. Define service metrics ("8")
3. Measuring systems internally
4. **Engage**, Realign to Customer to Achieve
5. Sell Service-Value Benefits (**TPC***, etc)
6. Get Paid: "last-look +2" for most accounts

For Enterprise Accounts:

(Having Partner-able Service)

Pivot into "Partnering Price Path

You name Price, We the SC terms

Achieve line and order consolidation via Tune-Ups

TACTICS: (Customer-Voice arbitrates all)

- Post: **10** Names, Pictures, Big 8
- Memorize
- Teach: Heroic Extras + Service Triage
- VP Service + Guarantees
- SC-Math Tune-Up Team (who pays?)
- Rep comp? Per acct:
salary + "**delta profit bonus***"
- Replenish needs into sufficient: "MyWeb"
- "Rep(s) won't/don't like..
"Then, they can tell it to the customers
and/or the fulfillment employees"

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

Engage? GL # 22: Educate (x) Rules of 5-7, 1-10

- **To know** and not forget: 5-7 repetitions
- **To teach**, preach, sell : 10X the time (1) for 5-7
 - Emote, fluently the message
 - First time student buys it our trust and conviction
- Make everyone a first time teacher: *Learn, Do, Teach*
- Overcome:
 - Decentralized branch structure
 - Top-down, word-of-mouth variations or absence
 - And, everyone's concern: What's in it for Me (WIIM) → WIIWe (4-wins?)

GL#23: Create Line-of-Sight for All (WIIMe/We)

ME → Big 8 + heroics for Big 10 accounts →

- Grow GM\$ per: customer, order, *Full-Time Equiv. Employee (FTEE)*
- *Growing GM\$ / FTEE → Explodes Profit\$ / FTEE*
- *Gainsharing Bonuses for all (x team targets for peer management)*

GL #24: "OPEN BOOK MANAGEMENT"

- Fails with Financial Management Thinking
- *Is a necessity for Service-Value-Vision achievement*
- *Turns everyone on!*

Closing Thoughts

- Try harder at the past x Financial Mgt. GL's won't work
- Service-Value Innovation guidelines do, *esp. for the first-mover*
- New line-item info → New Insights for high-ROI, low-risk customers
- Get courage → confidence to apply "guidelines"?
 - Baby Steps (one customer) to more
 - Advisory/co-experimenters per niche
 - Put All into Service Value Game
 - OBM, Line of Sight
 - 4-Win Pie Expansion Vision is the Best!
 - *Turn 23 GL's into discussion questions!*
 - *"Live with and into the questions" (Rilke)*

