Using Analytics for Defending Against, Partnering, and Out-Niching Amazon

Detailed Outline

1) Grasp the full, emerging threat of Amazon (AMZ) to all physical product legacy channels that is coming in the next three years
   a) AMZ is building the first customer-centric, cloud-based value-chain. This is not a supply chain
      i) It has 10++ intersecting, reinforcing, winner-take-all platforms
      ii) This monopoly will allow AMZ to get into every vertical that sells anything to Prime members. AMZ direct sales will vary from zero up. But, everyone will pay fees to get product information in front of Prime members.
   b) The Amazon Web Service is enabling all legacy channels to move into the cloud or die
      i) Case Studies: Walmart; Home Depot's $11B, 5-year knock-off plan of AMZ's playbook; Other omni-channel cases
      ii) While none can catch up to AMZ's value-chain capabilities, many can defend against, partner with, and out-niche AMZ while eating slower moving traditional competitors
   c) AMZ owns next-generation, millennial buyers
      i) The product discovery, buying journey, and preferences of millennials are different
      ii) They don't want order-taking folks or just-in-case-rep calls with their costs bundled into the price
      iii) Spot buys of overpriced, high-dollar warehouse SKUs will increase
   d) AMZ's cloud-based end-to-end global channel provides unprecedented cost advantages for introducing and profitably selling perfect clone knockoffs (private label)
      i) AI bots spot what sells best at the fattest potential profit margins
      ii) Then, source a knock-off and AI bots put the clone in front of regular buyers of established brands
      iii) Lowest cost logistics, order entry and delivery, and great 5.0 reviews is a killer combo
      iv) If they don't do cyber-shelf clones, then someone else will. Case Study: Wyzecam
      v) Clones keep the marketplace honest and compelling but steal your cream sales
   e) AMZ is/will be the global king of 5G bandwidth streaming to 5G phones by 2021
      i) Factories will strive for the best multimedia product content on AMZ
      ii) AMZ has patented reward points for watching infomercials
      iii) Discuss if factory distributors will be able to respond to digital buyers' discovery needs expertly, quickly, and at competitive prices. What then?

f) By 2021, digital, product information, pricing, and availability will cause product-push, legacy-channel, cost-bundled service models to unravel
   i) Product discovery journeys will change dramatically. Pull marketing from the end-user back through distributors will require rep skills, account interactions, and compensation to be overhauled
   ii) Distributors must fix the profit/loss cross-subsidies amongst SKUs and customer types or get cherry-picked
g) AMZ's infrastructure can not meet or beat all traditional channel capabilities
   i) How will factories both dis-intermediate and re-intermediate their distributors?
   ii) More services will be unbundled and sold for fees
   iii) Distributors must get better at selling sole-supply, integrated partnerships, which the best customers want and AMZ Business cannot do
h) The math of where and how to restructure legacy channels and respond to AMZ threats requires Line-Item Profit Analytics (LIPA)

2) Line-Item Profit Analytics: Crash Course
   a) Solves two major problems:
      i) Enables a core profit customer renewal for huge sales, profit, agility, and innovation capacity gains
      ii) Identifies the SKU profit cross-subsidies that AMZ is already exploiting
   b) A quick review of LIPA
      i) A Profit Equation for every line-item event allows summation for P&L's for every element within a distribution business
      ii) Optimal complexity design guidelines for Cost-To-Serve modeling
      iii) Whale Curves: definition, variety, how actionable, how tweaks at extremes yield big gains
      iv) Case Studies: Overall results from implementing LIPA insight guided plays

3) Profit/Loss cross-subsidies to fix and exploit before competitors act first and/or alternative players, such as AMZ Business, Home Depot, etc. start poaching the most net-profitable SKU sales
   a) SKU whale curve case examples and solutions
   b) Show how direct shipment profits are cross-subsiding losing warehouse business and present solutions
      i) Solutions for high GM% counter and re-distribution branches
      ii) Bright-Spot Change: get 20% better at direct-shipment quoting
   c) Customer cross-subsidy patterns and plays
      i) 20% of customers with 80% of margin dollars typically break into three categories.
         (1) About half are profitable, about a quarter break even, and another quarter are profit draining customers
         (2) Profit drains have good sales, margin dollars, margin %, but huge small-dollar picks and orders with overwhelming cost-to-serve
         (3) Present plays for each group
      ii) The bottom 80% of customers with only 20% of the margin dollars break into three sub-categories:
         (1) The top quartile is solidly profitable
         (2) The remaining 75% range from breakeven to astoundingly unprofitable at the bottom of the rankings
         (3) Play: Experiment with 10 of the worst first
   d) Customers can also be pooled and ranked on profitability by segment or niche
      i) Profitable and unprofitable segments can have peculiar product mix needs and/ or service needs that can be identified, measured, improved, and leveraged
      ii) Case examples of niche domination: sales up 50-100%; profits up 200-500%
   e) Special case, big-losing customers due to:
      i) Excessive deliveries, credit returns, special stocking cost, etc.
      ii) Solutions

4) Company education and practices must change to enable LIPA wins
    a) Everyone will have their own hurdles to get over. What they conceive, believe, think they can achieve, and attitudes towards win-win plays will differ. Some won't make it and may depart.
        i) Present a general [Core Renewal Road Map]
        ii) Common objections (and answers) that are used to keep the unviable status quo going
    b) Three to four selling models will be needed:
        i) Traditional model may work for about 15% of the bigger accounts
        ii) Team-selling with a nine-step, consultative process for the top 5% and the most innovative, progressive, fastest growing accounts
        iii) Some brokerage business that is totally rep controlled may stay unchanged
        iv) Small account division terms and tactics
        v) Case study: Optiquote calculator on website
    c) Sales force revisioning, retraining, and re-compensating
        i) Today, accounts need a minimum of $5K in margin to support an outside sales rep relationship, and most distributors have too many reps calling on too many small accounts
        ii) Decisions to downsize and/or upgrade the force to get "A" reps calling on "A" accounts to fulfill traditional needs, and pitch supply chain math-driven, win-win solutions
        iii) Switch compensation to true-worth salary, plus incentives for improving the net-profitability of accounts
        iv) Reps must be responsible for both margin dollars and their accounts' inefficient, losing buying habits

5) Case studies: The future is already here, it's just spread around unevenly. End-game archetypes are already in existence.
    a) McDonalds' 50+ year-run with the same distributors, moving down the cost curve together on a win-win basis. Open-book to both McD's and producers to be very profitable 3PL partner.
    b) Grocery and drug wholesalers who sell a commodity at the lowest price with all services unbundled and for fees on an a la carte basis
    c) Factories that sell small-stuff direct (dis-intermediate), but also re-intermediate their distributors with shipping info and virtual commissions who still process the popular, bulky stuff.
    d) The Amazon cloud-based, value-channel model. We must backcast to understand what a radical, digital, product information, availability, and pricing world will be like. What effects will it have on customer expectations and buying behaviors in 2021 and beyond?

6) Will you change or die?
    a) Discussion