Introduction: One-day, Fall Seminar Series (Your Input Please!)

THE VISION

I will start conducting one-day, seminars in larger cities in North America this fall. The working title:

"Analytics for Defending Against, Partnering and Out-Niching Amazon".

The content is radical. We expect to have registration sites up by summer's end. For now, this document includes the following:

1. How your feedback can help
2. The "Overview"
3. Who should attend and what you will learn and (hopefully) act on
4. A detailed outline of the seminar's content (subject to changing with Amazon's non-stop innovations)
5. A summary of my AMZ-oriented blogs to spark team discussions

The Cities

Already booked due to local co-sponsor support:

- **St. Louis** on 10/16 with ***St. Louis University's Center for Supply Chain Management*** as a co-sponsor and host for the presentation.
- **Montreal** on 11/5
- **Toronto** on 11/7

  Other Prospective Cities: Chicago, Boston, NYC/N. NJ, Philadelphia, Washington DC, Atlanta, Dallas, Denver, LA, San Francisco, Seattle/Tacoma. (Other cities? See 4 and 5 immediately below.)

<u>HOW CAN YOU HELP/FEEDBACK?</u>

1. Email me your interest. On a 1 to 5 scale: 1 is *"No Way. AMZ is a fad.";* 3 *"Maybe"* and 5 *"Will be there".* (bruce@merrifield.com)
2. If not a "5", any changes to boost interest, assure your attendance?
3. *<u>Alert your affiliation group about being a co-sponsor</u>*. I will be contacting many directly too.
4. If you are in one of the target cities, can you suggest a best logistical place to run an 8am to 4pm seminar?
5. If you would like the seminar to run in your unlisted city (or sponsor your own private seminar), be in touch to brainstorm on making that possible.
6. I'm also open to doing abridged, free webinars for affiliation group members.

The St. Louis University (SLU) Model

From previous experiments with SLU, the Supply Chain Center discovered that by hosting this seminar:

1. Their MBA students can attend all or part of the seminar for free and network with distributors for consulting/employment opportunities.
2. Attending companies get exposed to the Center's offerings.
3. The Center can invite their own community supporters for a 50% discount (as a co-sponsor): a good outreach benefit.

If any readers have a hometown MBA/SC university connection that could be a co-sponsor like SLU, please request an e-introduction to SLU's Center head: Cindy Mebruer.

Here's hoping that I'll see you this fall for a provocative educational experience!

OVERVIEW OF THE SEMINAR SERIES

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

Seminar Length: One Day

Sections:

- Cities, Registration Site/Fees and Co-Sponsors
- Why attend this seminar as soon as possible?
- Who Should Attend?
- What Will You Learn?

Cities already planned:

• October 16, 2018 - St. Louis

• November 5, 2018 – Montreal

• November 7, 2018 - Toronto

Additional target cities include: Chicago, Boston, New York, Philadelphia, Washington DC, Atlanta, Dallas, Houston, Denver, LA, San Francisco and Seattle.

Other cities will be included as co-sponsorships are put in place.

The registration fees will be low enough to allow management teams from local companies to attend. The goal is for fees to cover out-of-pocket production expenses. Bruce will get no fee income, but hope for spin-off business.

The fees will vary depending upon number of registrants from one company and whether a registering company is a member of a co-sponsoring affiliation group. Ballpark estimates? Retail rack rate for one attendee: $700. With rates per person dropping to $300 per incremental team member. Co-sponsor discounts could be as much as 50% off the one-person rate. Settled rates and a formal registration site will exist by summer's end.

Co-Sponsors

Additional registration fee discounts will be possible for attendees who belong to promoting cosponsors. Co-sponsors can be: associations, buying groups, tech solution providers, etc.

In exchange for promoting the seminars to their constituents, their constituents will receive a worthwhile discount. No other work or fees will be required of co-sponsors. Please inquire about sponsorship possibilities and details (bruce@merrifield.com) The general answer will be YES. And, • private sponsored seminars (or webinars) are an option.

Why Attend This Seminar As Soon As Possible?

Two major areas of my expertise – analytics and Amazon Business – are colliding:

> • I've worked with over 100 distributors in over 50 different channels for the past ten years on getting results with customer and SKU profitability analytics. The upside potential of these analytics is huge.
>
> • But, then Amazon (AMZ) decided to build an alternative, all-digital channel with big ambitions now for the B2B space. The radical product – information, pricing, availability and soon targeted multimedia advertising – transparency that is offered to end-customers is growing exponentially. Legacy channel players are looking at severe digital disruption to their current service-bundle-markup models, Both factories and distributors must figure out how to rethink their relationships to become effective in an all-digital, cloud-based buying and selling environment within 5 years, or by 2023. Big, fast changes with little time to respond.

WHO SHOULD ATTEND? The Open-Minded, Can-do, Ambitious Ones.

The seminar content is most challenging. There will be many analytics' screen captures and theory-proofing math that exposes traditional data-free beliefs as obsolete. This content is new paradigm stuff. Bring a team of your most open-minded, can-do, ambitious employees to help absorb and later discuss what will be covered.

Many well-paid, soon-to-retire channel executives don't want to see, believe, or deal with these challenges. They will nitpick and fight for the status quo with no new, alternative ideas. So be it. Should they attend? That's the CEO's call. If your company wants to harness digital realities instead of being victimized by them, attend with those who are up for the challenge.

WHAT WILL ATTENDEES LEARN?

- Every distributor (and factory-distributor digital strategy session) must have Cost-To-Serve modeling (ideally at the line-item level) to expose the cross-subsidies amongst both customers and SKUs.
- The consequences of not being data-driven in all going-forward decisions? The busy-ness of serving unprofitable customers eats all proactive intentions for better partnering best customers. And, most net-profitable SKUs will be: easily price-shopped and spot-bought on a split order basis from AMZ or other resellers, perhaps with private-label clones.
- Line-Item Profit Analytics will also let you identify two major classes of net profit-losing customers. You can then fix them to be able to sell better replenishment systems to the best customers with specific service metrics per customer segment. AMZ cannot do this type of local, on-premise system selling. Here's where your chance to out-niche AMZ lies.
- This type of customer-centric process, known as Core Customer Renewal, gives distributors the profits, growth, agility, and confidence they will need to continuously evolve within the oncoming digital buying and selling world.

- Line-Item Profit Analytics can be used as the basis for a Phase One digital interface, for exclusively meeting your best customer's needs. Forget about generic website selling. It only brings in small, far-flung customers and small orders. It's a distraction. The real goal should be to meet the soaring digital buying expectations of the biggest and best customers on the way to being digitally agile and relevant within all-digital cloud-based channels.
- With data at-hand, you can consider experimentation to find what works. Conduct two types of reseller experiments with the AMZ marketplace:
  - Selling the most price-sensitive commodities on a dynamic pricing basis
  - Selling all dust-collecting items for whatever the traffic will bear (like used book resellers do currently)
  - And, be prepared to do the same with alternative, vertical digital marketplaces that may emerge
- Data is the way to meet future AMZ plays head-on. By 2020, 5G bandwidth combined with AMZ multimedia APIs and AMZ reward points for watching targeted infomercials will all combine to usher in pull marketing. For traditional distributers, this means that digital buyers will not want or pay for just-in-case calls by reps and the value of product-pushing reps will be diminished.
- Distributors and factories will both need to rethink their respective field reps' roles and compensation immediately.
- Factories must take full responsibility for all content on AMZ and decide how to rethink distribution channel models to give Prime eyeballs what they want.
- Shared line-item profit analytics will help both parties move to win-win, dis- and re-intermediation solutions.
- Lastly, with line-item profit analytics data at your fingertips, get very serious about overhauling your leadership, strategy, culture, and incentives to make big, deep, scary moves. Anything else is just lipstick. The all-digital channels are rapidly approaching.

DETAILED OUTLINE OF THE SEMINAR

I. Grasp the full, emerging (next 3 years) threat of Amazon to all physical-product, legacy channels.

   A. AMZ is building the first, best ***customer-centric, cloud, value-chain***

      i. Not a factory's in-bound "supply chain"; or, a factory's out-bound, product-push distribution channel

      ii. But, an end-customer (and intermediary customers) back to producers capability that gives the end-user whatever they want with ever better: choices, information, prices, availability and delivery response time

      iii. The end-to-end value chain has 10++ intersecting, reinforcing, winner-take-all ***platform components***

      iv. This monopoly capability will allow AMZ to get into every vertical that sells anything to Prime members. Sales of AMZ's own goods (now starring private labels) will vary from zero to whatever. But, everyone will pay fees to get product information in front of Prime members.

   B. Amazon Web Service is enabling many legacy channel players to move into the cloud

      i. Examples: Netflix, many retailer Omni-channel case studies

      ii. Or, to not patronize their competitor's cloud services, Walmart is creating their own cloud. Others may use the knock-off services from other services.

iii. But, none will catch up to AMZ's value-chain platform capabilities
iv. Many can defend against; partner with; and outniche AMZ while eating slower moving traditional competitors

C. AMZ owns next-generation, millennial buyers
   i. Their product discovery, buying journey and preferences are different.
   ii. They don't want order-taking folks or just-in-case-rep calls with their cost bundled into the price
   iii. Spot buys of overpriced, high-dollar warehouse SKUs will increase

CI. AMZ's End-to-End Global channel-in-the-cloud gives it unprecedented cost advantages for introducing and profitably selling, **perfect-clone knockoffs (private label)**
   i. AI bots spot what sells best at fattest potential profit margins
   ii. Source a knock-off, then AI bots put clone in front of regular buyers of established brands
   iii. Lowest cost logistics, order entry and delivery + great 5.0 reviews = Killer
   iv. If they don't do cyber-shelf clones, then someone else will: e.g. **Wyze cam**
   v. Clones keep the marketplace honest and compelling. But, steal cream sales!

CII. AMZ is/will be the global king of 5G bandwidth streaming to 5G phones by 2021
   i. Factories will strive for best multimedia product content on AMZ
   ii. AMZ has patented reward points for watching infomercials
   iii. But, will factories' distributors be able to then respond to digital buyers discovery needs – expertly, quickly and at competitive prices? What then?

CIII. By 2021, total++ , digital, product – information, pricing, availability- will cause, Product-Push, legacy-channel, cost-bundled-service models to unravel;
   i. Product discovery journeys will change dramatically. Pull Marketing from end-user back through distributors will require…
   ii. *Rep skills, account interactions and compensation to be overhauled*
   iii. *Distributors must fix the profit/loss cross-subsidies amongst – SKUs and customer types – or get cherry-picked*

CIV. 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 best customers want and AMZ Business cannot do

CV. **The math** of where and how to restructure legacy channels and respond to AMZ threats requires Line-Item, Profit Analytics

II. Line-Item, Profit Analytics: Crash Course

A. Solves Two Major Problems:
   i. Enabling a Core, Profit-Customer Renewal for huge -sales, profit, agility and innovation capacity - gains
   ii. Identifying the SKU Profit Cross-subsidies that AMZ is already exploiting.

B. A Quick Review of Line-Item, Profit Analytics
   i. A **Profit Equation** for every line-item event…
   ii. …allows summations for P&L's for every element within a distribution business
   iii. Optimal complexity design guidelines for Cost-To-Serve modeling
   iv. **Whale Curves**: define; variety; how actionable; tweaks at extremes yields big gains
   v. Case Studies: Overall results from implementing LIPA-insight-guided plays

III. Profit/Loss Cross-Subsidies to Fix and Exploit before: Competitors act first; and/or, Alternative players (AMZ Business, Home Depot, etc) start poaching most, net-profitable, SKU sales

A. SKU-Whale-curve case examples, solutions

B. Direct shipment profits cross-subsiding losing warehouse business, especially:

  i. High GM% **counter** and **Re-distribution branches**: Solutions?

  ii. Bright-Spot Change: do direct-shipment quoting 20% better -cases

C. Customer Cross-subsidy patterns and plays

  i. 20% of customers with 80% of margin dollars typically break into three categories:

    1. Profitable: half; breakeven – a quarter; and Profit-Drain a quarter
    2. Profit Drain have good sales, margin dollars, margin %, but huge small-dollar picks and orders with overwhelming cost to serve costs
    3. Plays for each group

  ii. The bottom 80% of customers with only 20% of the margin dollars break into three sub-categories:

    1. Top quartile are solidly profitable
    2. The 75% range from breakeven to astoundingly unprofitable at the bottom of the rankings. Experiment with 10 of the worst first.

D. Customers can also be pooled and ranked by 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 delivery; credit returns; special stocking costs; etc.

  ii. And solutions

IV. Company Education and Practices Must Change to Enable LIPA wins

A. Everyone will have their own – conceive, believe, can-we-achieve and What's-in-it-for-We – hurdles to get over. Some won't and may depart

  i. A general **Core-Renewal, Road Map**
  (request a copy from bruce@merrifield.com)

  ii. Common objections (and answers) 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 9-step, consultative process*** *for: top 5%; and, most innovative, progressive, fast-growing accounts*

  iii. Some **brokerage** business that is totally rep controlled may stay unchanged

  iv. **Small Account Division** terms and tactics

  v. **Optiquote calculator on web site: case**

C. Sales force revisioning, retraining and re-compensating

  i. Accounts need today a minimum of $5K in margin to support an outside sales rep "relationship". (Most distributors have too many reps calling to call on too many small accounts).

  ii. Downsize, Upgrade the force? Get "A" reps calling on "A" accounts to fulfill traditional needs AND pitch Supply-Chain-Math-driven, win-win solutions

iii. Comp will switch to true-worth salary plus incentives for improving the net-profitability of accounts
iv. Reps must be responsible for both margin dollars and customers' inefficient, both-parties-lose, buying habits

V. The future is already here. Just spread around unevenly. End-game archetypes already in existence
   A. McDonalds' 50+ year-run with 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: sell commodities at the lowest price with all services unbundled for fees on an a la carte basis
   C. Factories that sell small-stuff direct (**dis-intermediating distributors**), but also **re-intermediate** their distributors (with shipping info and virtual commissions) who still process the popular, bulky stuff
   D. Amazon cloud, value-channel model? We must "**backcast**": what will a radical, digital, product – information, availability and pricing – world be like? What effects will it have on customer expectations and buying behaviors in 2021 and beyond?
   E. Will you change or die?
   F. If you change, you must first do a "Core Renewal": the sum of all of the Line-Item, Profit Analytics plays
      i. A company cannot spin its wheels serving losing SKUs and customers at the expense of doing more value-creation and partnering with their top 10% most net-profitable (potential) accounts
      ii. If cross-subsidies between SKUs is not cured, then customers will spot buy the most, net-profitable SKUs from AMZ-Biz on a spot buy basis

WHAT'S BRUCE BEEN SAYING ABOUT AMZ IN HIS BLOGS?

I've written over 100 blogs (generally about 400 words) over the past few years. You can find all of them at this link: http://merrifieldact2.com/archive/. (This document is already out of date. I continue to post a blog a week and more of them are on the AMZ-Biz challenges. Register for email alerts on new blog postings. And/or, connect with or follow me on linkedin where both blogs and article posts with comments can be found.)

Blogs that focus on AMZ's rising challenges to all B2B channels might be best read in the following order. As you read them, consider writing down follow-up discussion questions for your team of change capable employees.

1. (7-5-18) Connecting Customer Profitability and (Amazon) Cloud Commerce Effects. http://merrifieldact2.com/waypointanalytics/connecting-customer-profitability-amazon-cloud-commerce-effects/

2. Innovation Two-Step: Core Renewal and a Cloud-Based Value-Channel. http://merrifieldact2.com/waypointanalytics/innovation-two-step-core-renewal-cloud-based-value-channel/
3. Unpublished on my web site, but at LinkedIn: https://www.linkedin.com/pulse/update-amz-biz-v-legacy-b2b-channels-d-bruce-merrifield-jr-/.
4. Blog #93: Amazon Backcasting Strategies http://merrifieldact2.com/waypointanalytics/amazon-amz-backcasting-strategies/
5. Blog # 94: Amazon's $7 Per-Line-Item Wake Up Call http://merrifieldact2.com/waypointanalytics/amazons-7-per-line-item-wake-call/
6. # 77: How AMZ Will Skim Your Cream SKUs http://merrifieldact2.com/waypointanalytics/77-amazon-will-skim-cream-skus/
7. #98: "Your Margin is My Opportunity" (Bezos quote). http://merrifieldact2.com/waypointanalytics/your-margin-is-my-opportunity-jeff-bezos/
8. Variation on #5; a lengthier 800-word blog # 81: Find (and Fix) Your Cross-Subsidy Fault Lines
   http://merrifieldact2.com/waypointanalytics/81-find-fill-cross-subsidy-fault-lines/#more-1764

Blogs that blend AMZ issues with guidelines for how to effectively change/innovate:

9. #76: Amazon Begs Your Innovative Response http://merrifieldact2.com/waypointanalytics/76-amazon-begs-innovative-response/
10. #74: Millennials Want Their Corporate AMZ http://merrifieldact2.com/waypointanalytics/74-millennials-want-corporate-amazon-big-government/
11. #78: A Dual Strategy Against AMZ's Digital Challenge (Don't Be Like Kodak) http://merrifieldact2.com/waypointanalytics/78/
12. # 84: Knock Off AMZ's Innovative Pitch Process http://merrifieldact2.com/waypointanalytics/84-kickstart-innovation-knock-off-amazons-pitch-process/
13. #82: Culture Eats Strategy For Breakfast http://merrifieldact2.com/waypointanalytics/82-culture-eats-strategy-breakfast/
14. #88: AMZ Promotes Long-Tail Spending Cost Reduction. You Can Beat Them! http://merrifieldact2.com/waypointanalytics/amazon-promotes-long-tail-spending-cost-reduction-can-beat/