CORE RENEWAL ROADMAP TO EVERYONE-WINS

(How Distributors Can Act on Customer-Profitability-Ranking Realities.)

Introduction

This lengthy document is evolving. (Most recent changes: 7-7-2021.)

It's a lot of information to absorb. Don't panic. Take it a step at a time. Consider digesting this document in three steps:

1) Skim it. Take a break.
2) Wade through it while writing down the questions and points of clarification you may have.
   3) Be in touch to schedule a (no fee) session to go through all questions together.

This is meant to be a Roadmap for doing a "core customer renewal" for most types of distributors. It is informed and enabled by Customer Profitability Analytics **(CPA**) supported by a Cost-To-Serve (**CTS)** model at the line item level. This reveals SKU net-profitability opportunities too.

But, whatever CPA model you are using, good upside results are possible. Good practitioners can potentially: double sales and personnel productivity while increasing profits by 5-10 fold.

If your distributorship has an important, profitable, exclusive franchise(s), you must be product-pushcentric to comply with your key manufacturer's wishes. But, you can still grow *product* sales and market share faster by *winning bigger-share of biggest, best, faster-growing accounts*.

How? You will earn bigger share of customer spend by tuning up customers' unnecessary small-dollar pick and order transactions. (Purchasing 101: how to reduce small-dollar purchase orders and emergency fill-in orders costing down-time?) These activity-cost consolidations save both parties (heretofore) hidden, unnecessary buy and sell activity costs. This is a true innovative service that expands the pie-savings for both parties: a win-win.

In some cases, you will be able to convert most progressive customers from transactional buyers into 100% sole-supply partnerships.

Besides big profitable and unprofitable customers, we will cover:

- Small-losing accounts
- How to dominate niches of customers
- How to rethink your sales force and selling service models for what will have happened in channels by 2020.
- And, how to move to a high-performance service culture.

These are big objectives, but we will accomplish them with - low-fear, low-risk small-win, innovative - steps.

The solutions this roadmap covers will conflict with traditional (data-free?) beliefs and practices that most distributors have been practicing. Everyone will take their own time to – understand, believe, trust and want to pursue – the new ideas in this document. Perhaps a small percent of hardened Old School

believers will never accept these ideas, and some may leave. And, every company is encouraged to adopt and modify these roadmap solutions in their unique ways.

Overarching Strategic Theme: "The Service Profit Chain"

FedEx taught the world to expect perfect service on time or it was free back in the late '70's. Behind the guarantee was their corporate motto of: "people, service, profits (P-S-P). This strategy of….

1. Paying the most to get the best work-ethic fulfillment folks.
2. To then retain and educate them with high mastery expectations (or other great prospects were on file to take those precious paying posts)
3. To then create best service. And, zero errors or "do it right the first time" is the – low cost, high service value, high morale/pride – way to go.
4. Perfect service would, in turn, attract, keep and grow best customers who valued total service quality.
5. And, these loyal customers, would in turn, sell their friends on the service. The no-marketingexpense, most-powerful form of advertising you can have.

…was all comprehensively researched and articulated by Jim Heskett (one of finest teachers ever) and associates at the Harvard Business School. You can read all about it at this link:

https://hbr.org/2008/07/putting-the-service-profit-chain-to-work

I started applying this thinking along with my own invented metrics to distribution turn-arounds in 1982. You will see the thread of the Service Profit Chain throughout this document.

The Exhibits A-E (found at the end):

A. <u>Change Management Skills</u> will be important. This exhibit summarizes some key change management models that I have borrowed from to blend into this roadmap.
B. This exhibit summarizes the ingredients of some of the models followed by <u>a short outline of the Roadmap highlighting where some of the change theory is being used.</u>
C. I've been writing a series of blogs. Many recent ones have focused on Innovation. This exhibit lists <u>the innovation blogs and their links</u>.
D. A key concept from the book SWITCH is to write a "SCRIPT". This exhibit <u>summarizes Roadmap scripts.</u>
E. If you decide you may need to bolster your Roadmap efforts, then using me as a virtual, periodic <u>Innovation Coach is an option.</u> Or, I have some proteges who are more affordable and easier to control. My first, best one (who is now chronically over-booked, but worth a free initial phone visit) is McKinnon Shisko (https://www.ircg.com/about-us/team/mckinnon-shisko).

Roadmap's Chronological Steps

1. **Get line-item profit analytics** to rank customers by profitability, and then be able to do deep dives into line-item-profit statistics. This allows you to determine why customers are super profitable or unprofitable.
   a. *Customer profitability is still a "symptom" of what underlying root causes?* Why do some customers have bigger, average margin-dollars per - pick, order? And others have astoundingly huge numbers of small-dollar picks, orders and emergency deliveries?

b. Waypoint's (waypointanalytics.net) cloud service has 20 different deep-dive tools that allow you to zero in on the "root causes" and innovative insights to use.

c. Within most big customers' buying activity, there will be more or less pockets of (heretofore, hidden, unnecessary) high volumes of small dollar picks, orders, etc. With the right statistics, you can find these friction spots and fix them to help both parties.

d. For a free, GoToMeeting Tutorial on both CPA and Waypoint's tools contact me at bruce@merrifield.com.

2. **Start a "Cultural-Objections" Log** to guide a formal *Culture Management Update.*

a. *"Culture eats Strategy for Breakfast"* has been proven true. But, most companies cannot effectively define either their Culture or Strategy. CPA insights will define your historical strategy, and CPA solutions will smoke out problems within your culture. Blog on "Culture Eats Strategy…" link: *http://merrifieldact2.com/waypointanalytics/82-culture-eats-strategy-breakfast/*

b. Waypoint insights will provoke objections. Deliberately name and unpack the data-free beliefs/assumptions behind the objections. You must update Old Beliefs to Data-Based, New Beliefs to become a Highest-Performing, Innovatively-capable Distributor.

c. By example: when most see that a big, popular customer is very unprofitable, they just don't believe it. Strong *"no way"* feelings will emerge. Tell all to relax, breathe and…

d. For each objection, here is a checklist of discussion questions:

   i. Where did this entrenched (channel?) belief come from?

   ii. Do we have any credible information to support our entrenched belief over what Waypoint is revealing?

   iii. If we resort to nit-picking the model for not being perfect (which no model can be) then what is our plan B? To keep doing the status quo (with many profitdraining accounts) as channel change accelerates? iv. Our beliefs have compelled us to pursue what policies and tactics?

   v. How do we measure and incent those tactics?

   vi. How have we hired, payed, promoted people for being culturally effective? vii. How are any of these factors in conflict with Waypoint info?

   viii. Other companies have solved these objections and "how will we" questions, how can we learn from them?

e. Short-Cuts for handling objections:

   i. A list of 30+ case, Old-Beliefs objections with exhaustive educational answers are in the three parts of "chapter 5" of my "e-book". Here are the links:

   Part 1, the objections:http://merrifield.com/E%20Book%202013/Chapter%20Five.asp

   Part 2, guidelines http://merrifield.com/E%20Book%202013/5_discussion.asp

   Part 3, answers http://merrifield.com/E%20Book%202013/5_Answersto39concerns.asp

   ii. Pick the 5% of the folks who grasp the positive upside potential and work with them on small, focused experiments. Get small-win momentum. 50% of the wait and see herd will start to want some attention, help and extra incentive pay. And, finally worry about an intervention or letting go of the 5% who won't change.

3. Split overall **customer ranking reports** into different actionable sub-groups. Typical overall patterns for distributors are:

a. Profit Core: 20% of accounts generate 120-140% of the operating profit.

b. Minnows: 50% of the smallest accounts generate 5% of the gross margin dollars but consume 15%+ of the operating expense budget. 95% of these accounts are nongrowing, self-employed operators that don't have enough annual spend potential to support outside sales rep "relationships". (If many of these are currently assigned to reps who get commissions on them, then see **Step 10** about how to reassign minnows to a new small account division.). We need to create a new division for losing-minnows that has new prices and terms that will allow them (coercively) to become profitable or leave on their own volition.

c. Big Losers: 1-4% of all accounts have big sales and margin dollars (often with decent margin percentages), but are big losers due to huge quantities of: small dollar picks and orders; and often credit-activity costs. Reps typically are getting significant compensation dollars for the Gross Margin Dollars generated by these accounts. *You can always take care of (guarantee income for) your top 20% best reps.* If an affected Rep fits into your 2020 Rep vision (see Step 10), then guarantee their comp level from this account, and help them to sell win-win activity-cost-reduction ideas to transform these accounts from big losers to big winners.

    Different Service-Need Niches: Beyond the profit size categories above, do further sort customers into segments or niches of customers. A customer niche will buy SKUs that are both common to other niches as well as unique to that niche. It is tough to have the best fill-rates in the market for all niches, *but you can have best fill-rates, service-value (and fulfillment productivity) for one target niche at a time*. You will need to know statistically what the niche group is collectively buying to then retune inventory for the niche. This is easily done with a Waypoint tool). (*See my youtube playlist #4 entitled "Nichonomics" and more specifically clips therein numbered 24-26.* The link to playlist #4's index is below under **Step 4**.) *One big inventory and standard service model for all customers misses niche targeting opportunities*. (For service-value reinvention by niche do steps 4 and 5. To skip niching, for now, go right to Step 6.)

    By visiting 5+ customers within a given target niche, it is also possible to *discern peculiar service-value needs* (and corresponding internal metrics) for the niche. Invent, measure and sell these unique services for big niche penetration gains.

    Niche Sorting: Sort the top 20-100+ most-profitable accounts into different segments. Do this especially if a group will buy an obviously different array of one-stop-shop SKUs and/or you think they may have niche-peculiar service needs.

4. Rank all niche groupings by net profitability.
    a. What are your #1 and 2 (historically) most profitable niches?
    b. In your best niche who are the 5 most profitable, progressive and cooperative customers? Visit them to discover next-level, service value insights and metrics. (Playlist #4 has the how-to's.)
    c. In the same, best niche, who are the 5 most promising target accounts? Plan to TotalTeam sell and crack them once target niche service value has been achieved.

    For youtube video clips on nichonomics check out my playlist at this link https://www.youtube.com/playlist?list=PL7A1BDC59447161EE and specifically clips 16-20

5. Pick (from all accounts) <u>5 of the most profitable</u> with also the best-odds-for upside-profitgrowth, as well as, <u>5 target accounts</u> with best upside net-profitability growth. (*As preliminary steps to ENGAGING ALL EMPLOYEES….)*
   a. Make sure that 100% of all employees know: these accounts by heart;
   b. Teach them the what and why of **"heroic acts"** for these key accounts:
      i. For more on "heroic acts":
         http://merrifieldact2.com/wp-content/uploads/2014/10/63-Script-3-HeroicActs-for-Core-and-Gazelle-Target-Accounts.pdfexhibit
         And, Nichonomics playlist: clip 22 ii. And, how they individually and all stakeholders will benefit (niche-clip #50).
6. Who will **be Champion(s)** to lead these new tasks or *"scripts"* with a dedicated, irrevocable resource budget? Otherwise, regular Busy-ness and pressure to make monthly numbers prevails.
   a. ***<u>Who will be the Service Manager</u>*** to invent measurement systems for and improvements for "BIG 8" type service metrics:
      i.   Big 8 Exhibit: http://merrifield.com/exhibits/8elements.pdf
      ii. <u>Zero errors</u> (top 10 to all) http://merrifield.com/articles/3_2.asp
      iii. ROI of <u>Heroic Recoveries</u>: http://merrifield.com/articles/3_5.asp
   b. Who will be the Waypoint ***analytics whiz*** (I have partnering experiments underway with MBA programs to recruit students to work part-time to perhaps full-time)
   c. ***<u>VP for Value-Chain Solutions</u>*** to pitch customer VPs of "Supply Chain" on doing a "total replenishment system audit" and lead the team to install found fixes
   d. *New insights require new manpower with new skills to make new things happen.* If everyone is assigned to do CPA-stuff (if and when they can get around to it0, they won't.
7. **Weekly** On-The-Path Round-up **sessions** (Chaired if need be by a part-time, outside Innovation Coach. See more on this in exhibit E.)
   a. Homework assignments + To Do's by Next Week. (Creative urgency deadlines)
   b. Continually review and update the: Assumptions, Tasks, Milestones (MATs).
   c. Coaching: Tips, Helpful questions.
8. **Engage (sign up) 100%** of the employees to be part of the *service value reinvention plan.*
   a. *<u>Confirm publicly that all want: real raises; job-security, pride and growth; and to be an active part of the service-value reinvention solution.</u>* Some will nod "yes", but fully expect to coast along as usual.
   b. <u>New, published metrics with both individual and team rankings</u> will be needed to help Coasters and Passive Resisters get in the boat and start rowing with the rest of the crew. (Skim through playlist #5 – **"Achieving Service Value"** – at this link https://www.youtube.com/playlist?list=PL4194AD05EB22FB50)
   c. Teach all that *their economic wishes depend upon growing Gross Profit Dollars per Full-Time Equivalent Employees **(GM$/FTEEs)** by working smarter not harder*. By pursuing new tactics, the company will grow both sales and average order size. Two math scenarios:
      i. Grow both sales and average GM$s per – line, order and account – by 20% requiring no increase in the number of activity steps for most folks:

1. Reps' calls per day and on accounts stay the same, but the team wins 20%+ more share of existing key accounts with replenishment friction cost reductions that also increases average order size by 20%+
2. Then, all activity counts for: inbound orders; picks and packs; outbound deliveries and paper-processing all remain constant. There will be, however, a 20% increase in GP$s per head with no more activity work. The extra GP$s flow through to profit (less perhaps more commission dollars). The extra GP$s/head will pay for both raises and more _reinvested profits._
3. Bigger profits will be needed to reinvest into more inventory and receivables needed to support the increase in sales.

   ii. Or, scenario B: get 50% more small accounts and orders to increase GM$s by 5% and activity costs (head count) by 15% or more. This reduces GP$s/FTEE and profits. Company profits fade; wages are cut; best people leave; death approaches.

d. We will go from functional silos with silo metrics (and department heads) to a matrix organization. We will also be on service system teams with system metrics.
   i. Many will now have two bosses: functional department head; and Service Manager improving service systems and metrics who in turn answers to the 5 most profitable customers and 5 most important target accounts. _The Voice of the Customer and their Big 8 (or thereabouts) metrics rule!_
   ii. Systems retuning exhibit: http://merrifield.com/exhibits/processx.asp
   iii. Any new measurement method won't be perfect, but better than none at all

e. Cross-Training will be necessary to achieve: 100% on-time shipment; zero errors (during absences and peak order surges). A Learn-n-Earn certification program is likely.

f. Do any resistant reps want to publicly address all other employees on: why they won't be changing? On why they would be grateful to benefit from everyone else's hard, smart work? (An additional spur: semi-public postings of various rep rankings. Year over year who's up and down the most in GP$ and Net Before Compensation dollars thanks to consolidation projects with key accounts)

9. Announce a **freezing of headcount (FTEEs)**.
   a. If some should quit or be let go, the first option will be to see if the rest of the team would like to shoulder the "net productivity loss" of the departed. (The net productivity of weakest employees can be zero or negative. They call in sick or arrive late; they move slow; they make mistakes causing poor service and curing costs; they are demoralizing to the rest; etc.) If the remaining team chooses to not replace the person, then all receive an immediate raise equal to the team number divided into the departed's salary. (_If 10 people in the warehouse go to 9, then the remaining 9 get an immediate_ 10% _raise._ Do you think your 9 most, net-productive employees would miss the least productive for a 10% raise? You would then be moving towards fewer people of a better quality getting paid more, providing better total service with higher morale and retention.)
   b. Assume you _do a team audit and tune-up of your biggest, best account_. You ask for and earn a 50% increase in sales while increasing average order size by 20%: a bigger, better, more profitable order stream. (How? More in Step 11). _But, there will still be more net,_

fulfillment activity. When everyone feels too busy, hire no more people. Have the courage, instead, to approach a few of the most friendly and cooperative, big-losing accounts to persuade them to consolidate their activity costs. Prove mathematically how both parties can save activity costs (and customer downtime for lack of product) by simple fixes of the tiny-dollar picks and transactions. Once you get confidence and skills at selling these win-win changes, do the same for all big losers including: bullies, cherrypickers and incorrigibles. If they don't change, dictate new terms that will make them profitable. *If any accounts leave, this frees service activity slack that is already needed for servicing the growing bigger orders from best accounts. GP$s/FTEE will start to climb and Profit$s/FTEE and the gainsharing bonus pool will start to soar.*

10. Practice "affirmative inquiry" or **do "bright spot" stuff better**. No one wants to look at or be blamed for losing accounts. But, everyone wants to give more love to and take credit for most profitable ones. So, begin immediate new initiatives for retaining and winning more share from most profitable accounts and niches. Specifically:
    a. To define a next-level of service metrics for each target niche watch the youtube playlist on Nichonomics (link and clip references above).
    b. You will have to invent new ways to track your new service (innovation) metrics for each target niche/account. (Don't have time? Then, work on a few losing accounts to free up slack one way or another. And/or, hire a new, full-time, Bright Spot, "internal consultant" to make stuff happen.)
    c. Retune Most Profitable SKUs by niche. This is the easiest, most passive (no one objects) play. For a "script" see: http://merrifieldact2.com/wp-content/uploads/2014/10/61-Script-1-More-to-the-Core-Sales.pdf
    d. **For best accounts: Honchos will have to be lead learners for doing "AUDITS', and the ex-budget, underwriters for installing tune up costs.**
        i. *When you are making excessive profits on a few accounts, you should have no problem doing free analysis and fixes for these accounts.*
        ii. *While doing so, look for and ask for more share of account that you may not have. Earn more share with the new services' value that measurably grows the customer's bottom line.* Guided by statistical analysis of all buying at the lineitem level, you will already know where to look for friction: hidden, unnecessary activity costs for both parties.
        iii. Since no one has ever looked for weeds (dumb stuff) between the silos or for friction within the shared buy-sell replenishment process, you will find some!
        iv. For case studies on taking best accounts to the next level see youtube playlist #9: clips 33, 34, 35 at this link: https://www.youtube.com/watch?v=0ESAXSLFgoQ&list=PLYfUC2Vw2s2psBA70D2Ffyr1194EnJ17f&index=33
        v. For cracking target accounts: same playlist #9: clips – 80 to 85.
        vi. For turning big loser accounts into winners: clips 12-13, 61-73.
    e. Learn best replenishment – philosophies, systems, metrics and disciplines – from very best accounts to subsequently share them with biggest losing accounts that are inefficient and ineffective with their replenishment practices.

f. For VMI accounts: if not necessary, change small-pick-item frequency from monthly 1 to 2 times/year without informing the customer.

11. Work on *Sales Force Vision 2020* in parallel

   a. Compute Reps' overall, future net-profit potential value for the company with a few rough to more refined ranking ideas. How to? Suggestions follow.

   b. Create your own algorithms to rank reps by their estimated: net profitability stream for the next few years. And, if they switched tomorrow to a competitor (which competitor?) would they get assigned all of their same accounts? How much net-profitable account action would they be able to take with them?
       For 400-words on six ways to rate reps, check out this blog:
       http://merrifieldact2.com/waypointanalytics/1967/#more-1967

   c. Most distributors conclude that they have few reps who could defect and take any significant net-profitable accounts business with them. And, if you - team sell; audit and fix friction; etc – at the most profitable accounts within the best reps territories, the customer loyalty grows with all new loyalty going to the company.

   d. Goals: 3-4 Selling Models

       i.   Top 1-3% being <u>Enterprise Team</u> sold, rep's future role may change based on the customer's service wishes going forward.

       ii.   <u>Traditional model</u> for old-school buyers with annual GP$%s above $4800 to support 10+ sales calls per year. Why is $4800 per year in GP a minimum to support outside rep coverage on a just-in-case-you-want-to-see-me call basis? Read: http://merrifieldact2.com/downsize-sales-force-capacity-pay-oncustomer-profitability/

       iii. Brokerage rep(s) who control their accounts 100%; leave on straight commission. Assuming profitable territory, even be creative with their expense accounts. If you mess with these free agents, they can leave and take all profitable account business to another distributor.

       iv.   Minnow division with 1 to 3 tiers

       v.   Generally migrate to best reps calling on best 20% accounts selling systems for salary + NBC delta bonus. (which is customer-centric flexible)

       vi.   In addition to these different selling models for different segments of customers*, the time-and-territory, regular-call selling model will give way to ESELLING.*
             Next-generation (millennial) B2B buyers typically don't want to see reps on a regular basis to have a "relationship". They have too many friends already through social media. And, they are too busy multi-tasking 24/7. They want to start their buying journey digitally, then get rep help – as needed – through texting, calls and videos perhaps shared in virtual meetings. They only want a rep on premise as needed.
             Ask each buyer how exactly they would like to stay in touch and be helped. Some might still want regular calls, but the most ambitious, progressive buyers will want e-selling their way.

   e. **Reduce the reps' Relationship Magic Act.** As you team sell best accounts, you will get a more accurate assessment of just how valuable the rep's relationship is with each account. Don't be surprised to find that many best accounts do business with your

entire team (and the rep is a nice guy who could not take the account with him to another competitor) As the total team interfaces more actively with key accounts and installs next-level, service value, the increased relationship equity will accrue to the company's account and team not the reps'. Don't belittle reps, just assure them that team help with help to assure and grow their income too.

f. As you take – core, target and big-losing – accounts to the next level and think about a small account division*, start to think about how you may – downsize, upgrade and transform – your* **outside sales force between now and 2020.**

    i. These trends will hit the regularly calling rep model hard over the next two years:

        1. instant internet price shopping;

        2. an exponential increase in product information/education (video) content;

        3. and Amazon Business continuing to muscle into B2B channels.

    ii. How will you unbundle rep costs from product prices and then re-bundle your best reps into a new service value proposition?

    iii. Most distributors will find that 30-80% of their outside rep territories are currently net unprofitable. *Many too-small-to-call-on accounts are assigned to reps. The cost of sales calls is too high for the average GM$s generated per call.*

    iv. Reps may not be calling on their minnows, but are happy to get another 5% of their total income from the bottom 50% of their too-many-accounts list. Consider buying the bottom 50% or so small accounts from reps who fit into your 2020 Vision. Give them a check now for what the accounts earned them last year. Then, they have a year to make up the lost 5% annuity which will easily happen by team selling their best accounts.

    v. Because B2B e-commerce is taking away so much value from traditional rep calls*, you should shoot to get your top 20% best reps calling on your top 20% best (upside profit growth potential) accounts on a salary plus net-profit-for-theaccounts improvement bonus plan.*

g. For more on how to rethink your sales force see these articles of mine:

    i. http://merrifieldact2.com/downsize-sales-force-capacity-pay-on-customerprofitability/

    ii. http://merrifieldact2.com/how-to-re-think-rep-territories-and-incentive-pay/

12. **Create a Small Account Division** with a Profitable-to-You, Service-Cost Model. If you have a big central warehouse in a warehouse district, you won't get enough driveby/walk-in traffic to take care of small accounts at the counter profitably. Fastenal stores exemplify the "wholetail" service model. They are located on 4-lane commercial highways. You can see their sign and park in front. You help yourself to what you want. You pay with cash or credit card. And, you pay over 50% margins to Fastenal for their convenient, time-saving location. Bottom line: *You must ultimately be true to your existing infrastructure and customers' service logistics.*
If you have a dedicated outside sales force, then the math of call costs and relationship building limits reps to calling on only accounts that can generate a minimum of $4800 in margin per year (see article above on "downsize sales force capacity"). As you do downsize the force, you can create a small account division as a by-product.

13. What will the *new Pricing and Terms be for the small accounts*?

a. Don't see the 40-60% of your smallest accounts as an abstraction, zero in on 10 of the worst minnows. Do a sub-ranking of minnows by profitability. Go to the bottom and pick enough minnows with total transactions that add to statistically 5- 10% of your daily transactions.

b. Discuss these specific accounts with whomever is sensitive to losing any account.
    i. Does anyone know them?
    ii. Why are we allowing them to buy nothing but small orders on exotic items at a discounted price with free freight?
    iii. Does anyone have a problem with calling them up to renegotiate the relationship which might include: higher prices; strict minimum orders; unbundled freight (with markup) or handling fees (whatever it might take to make them profitable with volume and order entry incentives that earn lower prices or free freight).

c. Also, allow every sensitive person to exempt one or two best friend minnows from this treatment. The CEO may have, for example, persuaded his dentist to buy disposable rubber gloves from you instead of the dental supply company. This has created another supplier for the dentist and small orders for you. But, the CEO would be embarrassed to send the dentist a form letter. Better that on his next dental appointment, the CEO personally allow the dentist to resume buying everything from the dental supply company.

d. For more courage on implementing a Minnow solution check out Youtube Playlist #9 clips 22-32.

14. ***Publish Praising Statements*** including "Small Wins"
    a. Every Core Renewal turnaround has two educational challenges:
        i. Broadly educate all employees about what we are doing and why. It takes many repetitions and success stories to get everyone over their own – conceive, believe, we can achieve – psychological hurdles.
        ii. Pick one best account within one best rep territory at one best branch (find intrapreneurs who get it) to go narrow, deep and thoroughly to get: small wins; new learning; new courage; and ultimately can-do confidence. iii. Broadcast all; good experiments; good experimental failures; and small wins to everyone else through weekly published "Praising Statements"
    b. Google "merrifield + praising statements". Plus youtube playlist #9, clips 12-19 starting with:
    https://www.youtube.com/watch?v=nTrzuzF_YSo&list=PL4194AD05EB22FB50&index=12
    c. The psychology of publishing praising statements:
        i. Everyone gets re-energize and hopeful every week (v Strategies can take months to pan out, if they do. Folks burn out in the meantime.)
        ii. Those that get ink want more. Others strive for it. Coasters feel the heat and get other jobs before you weed them.
        iii. Steady small win news is like oxygen that fuels the constant innovative climb. d. Other related methods:

        i. Monthly Bottom-Up, Personal Mastery Reviews
          https://www.youtube.com/watch?v=ABOK1EL3hpM&list=PL4194AD05EB22FB5
          0&index=71 ii. President's Wellness Challenge (max options
      and ways to win)
        iii. http://merrifield.com/articles/5_16.asp (see also link within this article for
          "support notes"

15. DOES THIS ALL SOUND LIKE A LONG, HARD, SLOG OF OPPRESSIVE WORK?
    a. Keep refreshing the vision's upside potential. Weekly praising statements help.
    b. Break big tasks into small bite-size ones that take 20 minutes of proactive work to do.
    c. The learning from fast, cheap experiments is engaging and motivating.
16. *Consider hiring a virtual, part-time Innovation Trainer/Coach.* I've filled this role for distributors
    pursuing Waypoint-Insight Plays. I'd be happy to send you more information on this service.
    And, I have other colleagues who can do the same. They are versed in Waypoint and all that is in
    this Roadmap.

CONCLUSIONS

1. If you have gotten this far, congratulations! You are destined to get some bigger, better results
   for all four of your stakeholder groups: employees, customers, suppliers and
   management/shareholders.
2. You may have some additional questions which you are welcome to email to me at
   bruce@merrifield.com.
3. And, you may realize how vital having many Customer Profitability Management tools all based
   on having profit-equations for every line item. Be sure to be in touch about setting up a free
   tutorial on Customer Profitability Management powered by Line-Item Profit-Equations.

EXHIBIT A: Overview on Change Management Models

Customer Profitability Analytics (CPA) reveals catalytic opportunities to reinvent your distributorship. But, to better execute on informational insights, why not boost your "change management" skills. For a mind expansion exercise, use Google Images to search: "change management models". My curated, Cliff-Notes, for my favorite change models follows.

Top-Down, Change Process Models

In this category, the Oscar goes to **John Kotter's 8 steps** introduced in his acclaimed book: "Leading Change. The steps are: 1) Sense of Urgency; 2) Create a guiding coalition; 3) Get vision and strategy; 4) Sell the vision; 5) Empower All to Act; 6) Get Small Wins; 7) Build on the Change; 8) Make it stick.

Sounds logical, but what specifically is your best vision and strategy for the times and for each of your branches? CPA suggests taking your most profitable accounts (and customer niches) to the next level while selling win-win, activity-cost-reduction solutions to your most unprofitable ones.

Kotter was stunned by the book sales for "Who Moved My Cheese". So, he recast his 8 steps into the fable, "Our Iceberg is Melting". The stars of the story -collaborating penguins and walruses – helped ring up both terrific sales and reviews (at Amazon).

Bottom-Up models

These models focus on how to deal with people's: fears, habits and diehard, data-free, traditional beliefs. A most popular model is the **Kubler-Ross stages of grief** re-purposed for business change. The stages are: 1) denial; 2) anger; 3) bargaining; 4) depression; 5) acceptance; 5) moving On. We've experienced this sequence. But, how will you psychologically shepherd recalcitrant reps (for example) through what sequence of CPA plays?

Another key, psychology-of-change model is summarized in the **Adoption Curve** posited by Everett Rogers in his book "The Diffusion of Technology" back in '62. Google Image this term separately. Use variations to pick the 5% of your employees who will lead change starting with smallest, best experiments. Get to the *small-win innovation snowball stage*. *Rally the 50% of the herd* waiting to see what happens. Then, address specific intervention strategies or departures for the 5% who will never change.

Innovative Horsepower/IQ Models

Process models do not account for the innovative intensity and capabilities of a company's leadership and its culture. Two models (from global and local consultants) I've chosen for measuring what your current Innovation IQ are: *"Testing for Innovation"* (eight verbs) from *McKinsey* and eight strengths from *Dirk Beveridge's* (distributor-specific) *Innovative Mindset*.

McKinsey has boiled tons of global research down to eight verbs: 1) Aspire (you gotta wanna with passion); 2) Choose; 3) Discover; 4) Evolve; 5) Accelerate; 6) Scale; 7) Extend; 8) Mobilize. *Aspire* is by far the most important followed by *Discover* (which requires Dirk's strengths numbered - 2, 3, 4 and 5 - below)*.*

Dirk's distributor-focused 8 strengths are: 1) Optimistically Energized; 2) Intellectual; 3) Think Big; 4) Challenger; 5) Experimenter; 6) Doer; 7) Value Creator; and 8) Own the Future.

Execution Tools

From process models and power verbs, we must develop our own implementation tools. But, the Heath brothers do this for us in their recommended, change-management book: **<u>Switch.</u>** In it, they assume people are metaphorically like *a human riding an elephant*. The human is the logical part of our brain. The elephant is the emotional, irrational part.

Change involves three general challenges: 1) Direct the Rider; 2) Motivate the Elephant; and 3) Shape the Path.

Each challenge has three sub-challenges. For the Rider: a) follow bright spots ("affirmative inquiry" in disguise); b) Script the critical moves (very important for CPA-guided plays); and c) Point to the Destination.

For Motivating the Elephant: a) Find the Feeling; b) Shrink the change (to smallest, least-fearful babysteps); c) Grow your People (lots of repetitive education and reskilling).

For Shaping the Path: a) Tweak the environment (alignment theory); b) Build the (new) habits; and c) Rally the herd (correlates with final parts of Kotter and McKinsey).

QUESTIONS ABOUT YOUR DESIGNATED INNOVATION CHAMPION

CPA Plays *well executed* have seen distributor sales double in three years while profits increased 5 to 10 fold.

- But, do you have an experienced Innovation Champion?
- Will they be 100% dedicated to pursuing this core-customer, renewal process?
- How will you coach your Champion?
- Is there any roadmap that marries this change management stuff with specific CPA scripts?
- And, what about initial, part-time, supplemental coaching assistance?

For the Roadmap and Supplemental Coaching questions, I now have my latest iteration solutions. For a free, comprehensive set of documents email me your request to bruce@merrifield.com.

EXHIBIT B: CHANGE MANGEMENT MODEL INGREDIENTS' APPEARANCE IN THE ROADMAP

KOTTER 's 8	SWITCH's 9	Beveridge 8 Mindset	McK 8 Verbs
Sense of Urgency	Find Bright Spots	Energized and Optimistic	Aspire
Create guiding coalition	*Script Critical Moves*	Intellectual	Choose
Get Vision and Strategy	Point to Destination	Think big, bold	Develop
Sell the Vision	Find the Feeling	Challenger	Evolve
Empower All to Act	Shrink the Change	Experimenter	Accelerate
Get Small Wins	Grow your People	(Can) Doer	Scale
Nail and Scale them	Tweak the Environment	Value Creator	Extend
Reshape the Culture	Build Habits	Own the Future	Mobilize
	Rally the Herd		

Roadmap Ingredients (Dirk and McKinsey's strengths/verbs are behind all of these)

1. *Sense of urgency:*
   a. Who wants a raise, how soon? How big? *Point to Destination:* What's In It For We? *GP$s/FTEE ➔ Profit$s/FTEE ➔ Gainsharing for all. All stakeholders prosper!*
   b. Vision 2020: Renew/partner Customer-Core + internet information and AM-BIZ trends *2. Guiding coalition:*
   a. Management team buys into Waypoint Upside Opportunities
   b. Digests the Roadmap
   c. Identifies *Bright Spots; Shrinks the Change:* Down to one+ customer with a can-do: rep, branch manager and Innovation Champion.
   d. Add perhaps a part-time, outside Innovation Coach
3. *Vision and Strategy*
   a. Be true to logistical infrastructure.
   b. Start with most net-profitable, historic accounts and niches of accounts.
      i. *Point to Destination: Partner 5 most profitable + 5 targets* that will grow us
      ii. Reinvent basic and extra service excellence
         1. *Big 8: basic service excellence/niche* +… *iii.*
      Supply-Chain-math enabled *audits and tune-ups* iv.
      Secure as many sole-supplier, SC, partnerships as
      possible (least impervious to split, spot buying from
      AMZ-BIZ)
   c. Fix big losing accounts along with *New Minnow Division .*
   d. Downsize, Upgrade Sales Force to fit into *Selling Vision* 2020
4. *Empower all to Act*: 5 most profitable and 5 targets*. Service Triage*; *Heroic Acts*. Meet Big 8
5. *Script Critical Moves* and *Shrink the Change.* Lowest-Risk, smallest, baby-step *expt's* with best:

account, rep, branch manager, project champion.

    a. *Freeze headcount*; downsize, upgrade?

    b. ***Beef up*** most net-profitable SKUs

    c. ***Audit and Fixes*** as top few most profitable accounts

        i. Learn best replenishment practices from Best accounts to share to all

        ii. Learn ***9-step enterprise selling machine team process***

        iii. Gain courage, confidence, skills, tactical fixes and too busy, don't hire

    d. ***VMI accounts? Switch 12 small-picks*** per year SKUs to 1 to 2 picks/year

    e. Now transform losing accounts to winners:

        i. ***Big losing friendlies*** to ***cherry-picking bullies***

        ii. ***Minnow division; bottom 10+ worst less exemptions*** iii. ***DURRR*** the sales force. Best reps on best accounts.

6. ***Find the Feeling***. Non-stop, broad education + ***Praising Statements to Trumpet all Small Wins***

    a. Other branches and reps want the same success. Who raises their hand first?

7. Make small, smart, high-ROI, focused BETs to get ***Small Wins*** ➔ Published Praisings **8. Grow your people/Tweak Environment** Numbers everywhere, coasters exposed.

    a. ***Learn-n-Earn certification; mastery bb10th***

    b. ***Bottom-Up grow myself monthly reviews***

    c. ***Team-based incentive inflate/deflators***

9. Reshape culture (***culture log***) , systems, habits and rally people all happen as byproduct.

10. Merrifield + "kinetic chain" ➔ ***holistic change management checklist 11. Innovation Coach?***

EXHIBIT C: INNOVATION BLOGS TOUCHING ON INNOVATION

1. *Science of Small-Win Innovation* *http://merrifieldact2.com/waypointanalytics/85-science-small-win-innovation/*
2. *Eight Verbs for Innovating….* http://merrifieldact2.com/waypointanalytics/83/
3. *Culture Eats Strategy for Breakfast…* http://merrifieldact2.com/waypointanalytics/82-culture-eats-strategy-breakfast/
4. *Five I words for Innovation*
5. *Using Dumb Stuff to Boost Your Profits* http://merrifieldact2.com/waypointanalytics/80/
6. *How to Join the Gazelle Club* http://merrifieldact2.com/waypointanalytics/79-join-gazelle-club/
7. *Amazon Begs Your Innovative Response* http://merrifieldact2.com/waypointanalytics/76-amazon-begs-innovative-response/ *8. Innovation v Echo Chambers, HiPPOs, ZEBRAs* http://merrifieldact2.com/waypointanalytics/75-innovation-vs-echo-chambers-hippos-zebras/
9. *CPA for Reinvention and AMZ Proofing* http://merrifieldact2.com/waypointanalytics/68-customer-profitability-analytics-cpa-forreinvention-and-amazon-proofing/
10. *Distributors Retune Your Brand* http://merrifieldact2.com/concierge-customer-service/67/
11. *Service Value Innovation Guidelines* http://merrifieldact2.com/service-value-innovation-guidelines/service-value-innovationguidelines/
12. *Boost Curiosity to Innovate*

    http://merrifieldact2.com/waypointanalytics/boost-curiosity-to-innovate/

13. *Increase Innovation With a Curiosity Rule and Tool* http://merrifieldact2.com/line-item-profit-analytics/increase-innovation-with-a-curiosity-ruleand-tool/
14. *Innovation! But, Specifically How?* http://merrifieldact2.com/line-item-profit-analytics/increase-innovation-with-a-curiosity-ruleand-tool/

And, stay tuned to future blogs posted both on www.merrifieldact2.com and LinkedIn.

EXHIBIT D: ROADMAP "SCRIPTS"

Scripts? In the book **SWITCH**, the authors draw on proven theory that "too many options leads to analysis and _decision paralysis_". Add to confusion, there is _fear_ of - the unknown; failing; being ridiculed for not succeeding; being berated for not doing all of the regular stuff; etc. – so folks make up excuses and keep doing the status quo.

So, first moves have to be – simple, focused, concrete, ideally visual and visceral – to increase the odds of succeeding. Clarity and success will quickly melt resistance in easily half the herd.

My first "Scripts" can be found at http://merrifieldact2.com/exhibits/ click on exhibits 60 – 63

> (61) More to the Core Sales: beef inventory on most profitable SKUs from most profitable vendors

> (62) Turning Big Losing Accounts into Winners (lead to gold)

> (62-A) Agenda for Friendly, Big Losing Account

> (62-B) Supplemental Thoughts for Hard-Nosed Customers

> (63) Heroic Acts for Core and Gazelle Target Accounts

A number of my blogs are quite specific "How-To" Scripts in disguise:

#24. _CEO Sales Calls that Win Huge, New Profit_ (Audit for fixes for your most profitable accounts)

> http://merrifieldact2.com/exhibits/

#30. Dynamic Service Triage, Case Study (often to do an heroic act for an alternative key customer)

http://merrifieldact2.com/concierge-customer-service/dynamic-service-triage-program-case-study/

#42. Grow Gross Margin Dollars per FTEE   http://merrifieldact2.com/waypointanalytics/grow-gross-margin-dollars-per-ftee/

#44. Make Your Own Luck with Big Profit Swing Customers

http://merrifieldact2.com/waypointanalytics/customers-in-distribution/

#45. Judo Selling for Fading Sales Growth   http://merrifieldact2.com/waypointanalytics/judo-selling-fading-sales-growth/

#55. Zero Error Analytics   http://merrifieldact2.com/index/zero-error-analytics/

#56. Why You Need Enterprise Selling Metrics in Distribution   http://merrifieldact2.com/index/why-you-need-enterprise-selling-metrics/

#60. Be Rid of Large, Unnecessary Credit Costs   http://merrifieldact2.com/index/get-rid-large-credit-costs/

EXHIBIT E: Bruce Merrifield As an Initial, Supplemental, Innovation Coach?

Details of the Program:

1. Hire Bruce for **2 hours per meeting cycle** (typically starting weekly, then bi-weekly, monthly and then ending). In pilot cases - 6-8 cycles stretching out over 14-18 weeks – is typical.
2. Aside from the **one-hour meeting** which Bruce chairs virtually, the **off hour** is spent with Principals on co-creating: homework assignments; meeting support analysis; questions to ask, specific folks about specific issues. CEOs may prefer Bruce to be firm with some reluctant team members.
3. Bruce is ***available for questions from all in between meetings*** via email or short phone calls. He often will respond with a quick answer plus a link to one of his on-the-net, massive resources for detailed, how-to information.
4. As chair of the hourly meetings, Bruce will:
   a. Ask for progress reports on each project. This holds project leaders accountable to past commitments. The meetings provide a creative sense of urgency which will have some scrambling to hit milestones.
   b. Ask best (from experience) and firm (backed up by data and economic reality) questions.
   c. Offer spontaneous coaching tips filling coaching needs most companies will have not yet developed internally (but will within weeks).

5. Before the first meeting, Bruce helps to set up the Innovation Team and gives them all homework before the first meeting convenes. He has a Roadmap Package for all to digest and discuss. And, he will do preliminary tutorial sessions on Customer Profitability Analytics and the use of the Waypoint cloud service.
6. Bruce charges $300 per hour for preliminary work and then $600 per meeting cycle which totals to $3600 to $5400 for a typical overall engagement.

The ROI:

1. The company gets going to get an ROI on its CPA cloud service investment and subscription fees.
2. Many companies struggle (at great opportunity cost) to initially form an Innovation Team and get a rhythm of weekly progress.
   a. They have no overall vision they are all excited about or a Roadmap for moving toward that vision.
   b. They don't have project Champions with ex-budget resources focused on the right initial opportunities. And, no Coach to help the Champions get going well.
3. If committees are formed. Leaders are reluctant to lead where they have never gone before.
   a. The perceived risks of what must be done are much bigger than reality.
4. Simply put: no one has Bruce's experience at using CPA for doing core-customer renewal tactics to get things going.
   a. Without Bruce as a catalyst, the end results will often be: everyday Busy-ness, the urgency of making monthly numbers, habitual activities and the huge, hidden resistance to change conspire to defeat CPA opportunities.

5. Some team members (think coasting, politicians who hold sway by bullying with data-free opinions) don't want a Coach who they can't push around. They will insist on running the show, and then stall.
    a. If you have any mangers like this, you have another reason to hire a Part-Time, Innovation Coach.
    b. Bruce can hold even the most active-negative resisters accountable. Everyone will become part of the innovating-forward solutions.
6. Growing courage and then confidence to execute new CPA-informed plays happens quickly.
    a. The rhythm and habits for doing new smart, stuff emerges.
    b. Bruce's program is designed to get going without him as efficiently as possible and score immediate small-win, financial results and a lift in company-wide morale.