

Transitioning Distributor Reps to Cloud Ecommerce Selling

“Sales Tactics” (slides 14 – End)

Waypoint Analytics

Phoenix, AZ

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Agenda of Sub-Topics

1. History of Channel Selling Models: Respect the past
 - Origins of Time-and-Territory (relationships) Management.
 - Still where consumables sold to non-consolidating customers (e.g. contractors)
 - Past/Future driving forces requiring new selling models
 - Logistics technology + channel consolidation + product commodification
 - Pursuit of lowest total procurement cost replenishment systems (McD's)
 - Model-Changes within earlier-moving channels (adapt to yours?)
 - Cloud Ecommerce will require what new E-selling models and skills?
 - Brands must interact digitally and directly with end-users.
 - Requiring: simultaneous dis and re-intermediation with distributors/dealers

Sub-Topics (2)

2. “Model Drift” problems for straight commission
3. Customer Net-Profit Analytics Insights
4. Solving “fear of rep defection” with any selling changes
5. Transition process to E-selling within Cloud Ecommerce
 - Rightsize, Upgrade, Re-Focus, Re-Skill, Re-comp and Re-Deploy
6. Closing hopes:
 - Maximize percent of reps redeployed in new selling models
 - Distributors will do a Core Customer (centric) renewal in parallel
 - Get the – profits, courage and agility – needed for the transition.

Origins of Commissioned Reps' "Relationships"

In the beginning (1912 Music Man):

1. Open new territories to push factory output further
2. Be your own agent. 5% of what you kill. Easy math.
3. Cold calls. Teach customers what's new. Make markets
4. Be the face of company; do it all. News. Service fixes.
5. Relationships with a nation of local shopkeepers
 - a. Do stock replenishment. Write up orders. Mail them in.
 - b. Miss a call? Competitor (for price checking and allocations) nibbles.
6. Optimum time for stealing reps?
 - a. After exclusive distribution and allocations
 - b. Before channel consolidations



Best Logistics Innovations of the Past

- **Containers** reduce global manufacturing costs by 99%
 - Asian factories can sell clone brand SKUs via AMZ instantly
 - Huge offshoring from '95 on.
- **Bar codes**: Retailers can scan and order from DC's '74 on
 - Retail stores and distribution massive consolidation thru '80's
- Scanning registers + **EDI** → Walmart Cross-Docking, 4PL flow
 - '83 to '88, then into groceries and super centers
 - '96 to '00: 25% of all productivity gains in the US
- **iPhone** (life's remote) + **bandwidth** and **GPS** costs collapsing
 - 24/7/365 mobile, telecommuting, (b2B millennial) buying
- Flex Corp and Amazon put supply-chains into **real-time, AI cloud**

And Technologies Underway

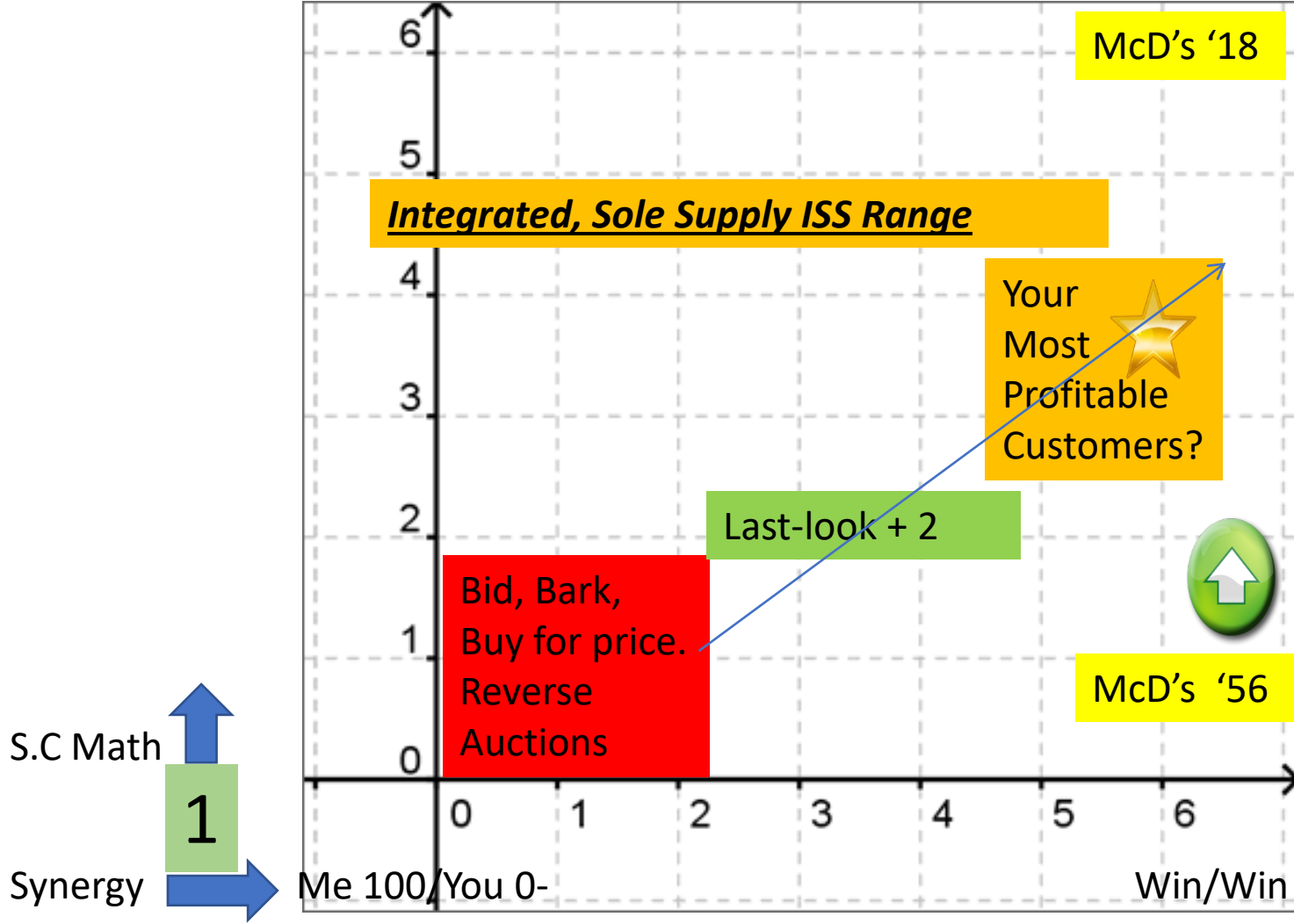
1. IoT, Big Data & AI. ...
2. 3D Printing. ...
3. Robotics & Automation. ...
4. Blockchain. ...
5. Digital **Logistics** Marketplaces. ...
6. On-Demand & Crowd-Shipping. ...
7. Autonomous Vehicles. ...
8. Alternative Fuels.

- Amazon investing in if not operating with all of these technologies.
- Their End2End Value-Chain: from Prime searches to global factories:
 - All in cloud; no paper or people.
 - AI managed inventory flow. Less inventory; hi'r fill-rates; faster delivery; lower cost.
 - (+) Lowest cost at each step

Product Commodification

- Products
 - Overshoot in niche extensions (Vanilla 40%/300% v; 31st flavor- loser)
 - Six-Sigma, equally-excellent quality + collapsed barriers to copying
 - Chronic excess supply. No allocation-loyalty protection from reps
 - Guaranteed satisfaction (no buyer risk)
 - 24/7/365 radical product: comparison, info, pricing, availability
 - Factories - exclusive to intensive, customer-centric - channels
- Customers become knowledgeable, repeat buyers. Next needs?
 - (friction free) 24/7, 1-click/voice search/order + 2-day to one-hour delivery
 - Lowest - total procurement cost (TPC), replenishment system. Max Uptime.
 - Reps out. E-selling support as needed. Team2team 3PL, 4PL solutions.

End-Vision For Win-Win Replenishment



6,6 Selling Process Skills?
 Criteria for Targets?
 Systems division?

Life-Cycle, Selling-Paradigm Changes

1. Prospect! Then, Insurance industry splits: cold calls from rebuys?
 - a. **Hunters for new biz** – high: pay, cold-call rejection, turnover
 - b. **Farmers maintain** – low: pay, rejection, turnover.
 1. But, many distribution channels *kept 5% for both!*
 2. 5% indexed to: economic growth; service quality of horse; inflation = GREAT GIG!
 3. Low stress, high-pay, do whatever → Low turnover; aging; harvesting; poor recruiting
2. Walmart (11/91 memo): Reps out! Supply-chain teams in
3. Door-to-door selling → Amway Pyramids → Web Selling
 - a. Cost/call v Margin-Dollar revenue imploded
 - b. Brands for less at discounters: '62 - K-Mart; WMT; and Target - all open

Selling Paradigm Changes (2)

4. Retail channels consolidate, then backward integrate:
 - a. Personal selling to Indies → Team2Team “Systems” to Consolidators
 - b. Unbundled, 3PL, a la carte services, customized to each customer
 1. ('86) **SuperValu's** Service Division had: 185 SKUs with own P&L
 2. Ultimate end-game model: **McDonald's**. Move down cost-curve together, forever
 - c. **McKesson** in '80's:
 1. GM% from 14 to 6; CTS dropped more. ROTA from 5 to 18.5%
 2. 1200% increases in: sales, order size, territories (10% of reps made transition)
 - d. Underlying force: ever-greater percentage of sales (80 to 95%) are:
 - a. Re-buys by educated customers + equally-excellent commodities + excess supply
 - b. Clones+ of Vanilla (not 31st flavor) for much less and 5.0 Reviews

Selling Paradigm Changes(3)

5. Brands For Less (first B2C, then B2B)

- “Fair Trade” unlawful '61
 - K-Mart, WMT and Target all start-up in '62. Channels proliferate!
 - B2B brands go from - *exclusive distribution to intensive: '70's - '90's*
- **Walmart X-Docking ups the ante**
 - a. Pilot '83 to '86. P&G from '86 to '88.
 - b. Newell: first **embassy** in '88. Co-invent **“category management”**
 - c. Today: 7000/120K SKUs → **70% of sales. 99% fill-rates**, no excess inventory.
No promotions/dead-net pricing into “Every-Day-Low-Prices”.
 - d. '96 - '00: 25% of US productivity came from Super-center roll-out

Paradigm Changes (4)

Integrated, Automated, Sole-Supply, Replenishment TO B2B Channels

6. Hospital Supply '96 to '00

- HMO's accelerated hospital consolidation. Need sole, integrated contracts
- 100+ regional distributors → 4 national-footprint, system sellers
- Allegiance 3-year transition. Bought consulting firms to sell systems

7. Multi-Manufacturing-Plant Companies + SAP “central spend mgt”

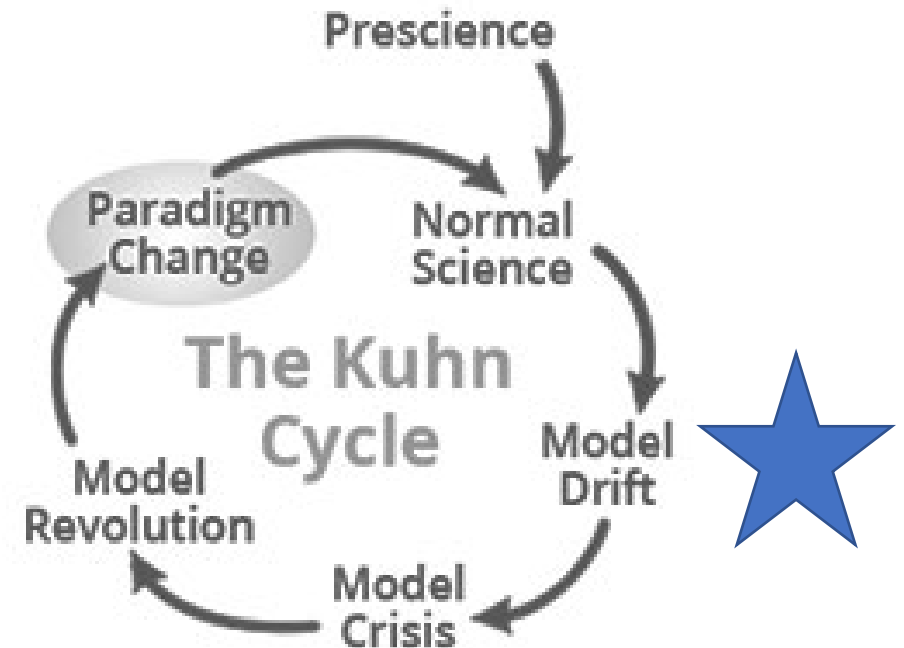
- “Integrated sole supply” (ISS) trend starts in early '90's
- Jack Welch extolls GE's in '96. (Grainger jumps in big, then out (?))
- Hunter rep helps hook. Team does the rest of life-cycle.

Why aren't all distributors also able to sell such systems to their best, local, gazelle (3%) customers?

“New incentive plan?” First 6-steps? Drift problems with Old? Then, the “incentive” Q

Kinetic-Chain for Profit-Power

7. Incentives
6. Tools
5. Education (skills)
4. Great People (aptitude for?)
3. Systems (analyze, isolate, track)
2. Strategy/Culture (digital models)
1. Leadership; Mgt; Change Champs



Model Drift Problems for Standard Commission Plan?

Model-Drift Problems With Incentive Pay on Total Sales or Margin Dollars

1. 80-95% of sales are commodities. Sell replenishment economics!
 - a. Post-consumer society.
 - b. Overshoot in niche products (*31st flavor?*).
 - c. Six Sigma; equal, excessive quality & supply of *vanilla clones*
 - d. Experienced repeat buyers *want it for* (total procurement system) *less*
 - e. Reps' cost/benefit trend declining (quality service + 24/7/354 info) v \$100+/call
 - f. Rep avoidance* (of factory reps and your reps) climbing? (next slide)
 - g. Spot-buy showrooming: 2+rep groups @ 5% v AMZ *clone* prices
2. *Maintainers* aren't "*challengers*" for win-win, system solutions
 - a. Loss Aversion = 2X Greed. Meet prices; 110% to existing accts, not prospecting?
 - b. Incidence of innovative efforts past few years = next few



Thought Exercise: Unbundle Rep Cost

What if, every supplier offered you: Status Quo or Pump-Your-Own?

Assumption: Supplier field sales force costs 5% of Prices you pay

Offers:

1. Status quo. Rep's profit impact > their 5% cost
2. Or: buy same or more to get 5% rebate each quarter
 1. If you buy less automatic reversion to status quo (negative incentive?)
 2. If you want to see rep, available for fee (like legal, accounting charges)

Your biggest, best customers' choice? Paying highest cost/call!

Want to be Customer-Centric? Then, let them be the final arbiter.

Model Drift (2)

Problems Revealed by Customer Profitability Analytics (CPA)

3. Pay the same for: *harvesting* as net-profitable account *cracking*
4. Pay same for: net-profitable and un-profitable accounts
 - “Worrying about Cost to Serve isn’t reps’ problem”
 - But: customers’ lose-lose buying habits? Giving away services for free?
5. *Inheritance* of accounts is not equal. Timing luck; political fiefdoms
6. Not easy to *reassign* accounts:
 - Under-penetrated Bigs → Team-sell and flex-comp; and/or, Acct Crackers
 - Solid accounts to rookies (or can’t attract next-gen talent)
 - *Too small* for rep-coverage expense *What’s cut-off size math?*

Account's Annual GM\$s to Fund a "Relationship" ?

TimeOut

Assumptions:

- \$100+ per face-time call.
- Want cost per call to be 20-25% of the GM\$
- 10 Calls per year to be a: friend, consultant/
- \$1000 in call costs requires minimum of \$4-5000 in GM\$s
 - PS: Is average GM\$s/trx > average Cost\$s/trx for **profitable** relationship

Typical distributor has:

- Accumulated too many, non-growing, losing Minnows. Solution?
- Many accounts below \$5K threshold assigned to reps. Solutions?
- Best reps: buy out minnows, refocus on reassigned Bigs from "Roadsters"?

Model Drift (3)

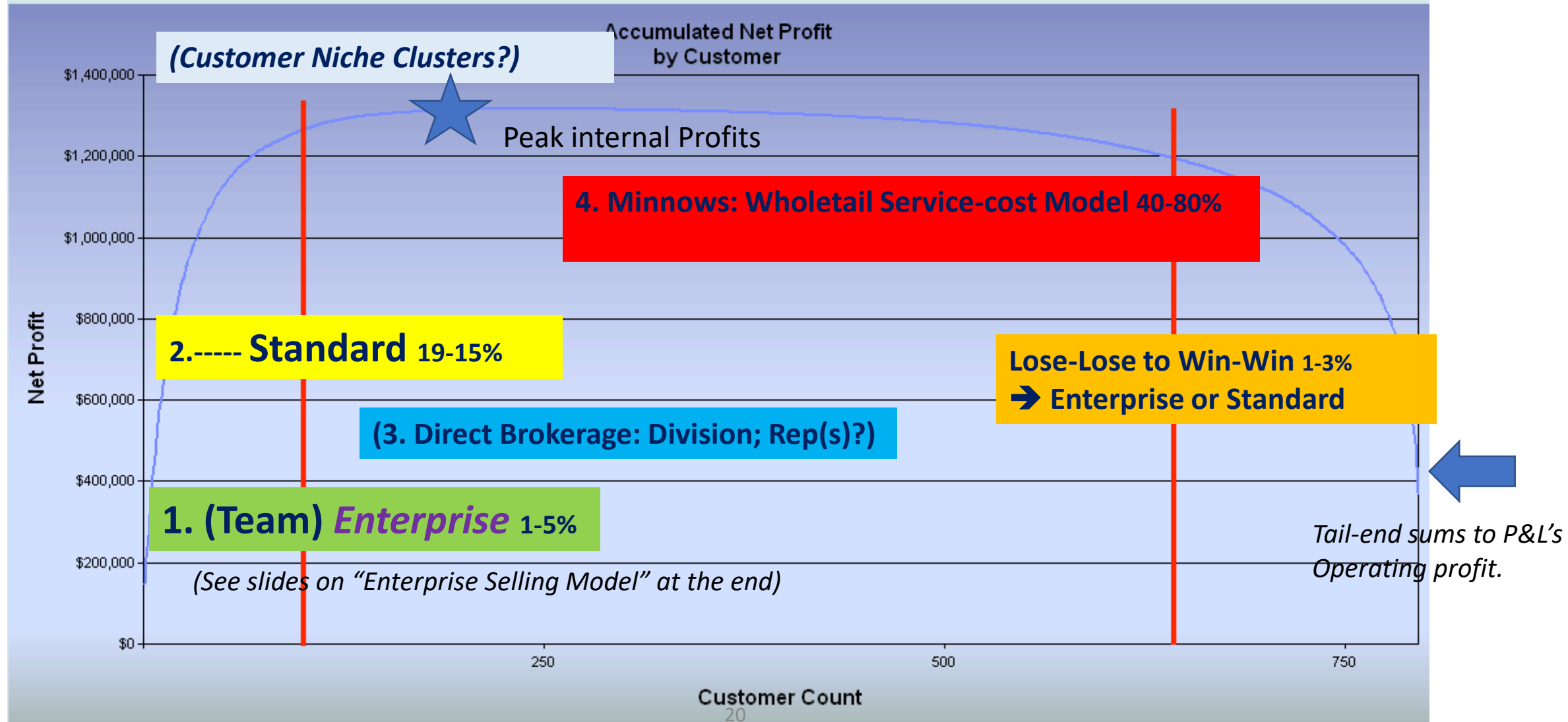
7. Compensation/call for Bigs v Small? WMT '91 case = a trend!
 - Bigs want team-to-team deal. ***Commission isn't customer-centric***
 - Let customer be final arbiter on rep role and comp
 - Reps on salary + incentives that will vary by customer
 - Integrated Supply Sellers typically? Hunter bonuses only.
9. Millennial B2B buyers want ***E-selling support*** as needed 24/7
 - Rep avoidance at big accounts growing
 - Small, lonely, old customers reward sales calls with losing orders
10. Brands direct on all product selling + mass-custom making?
 - Configure, Price, Quote (CPQ) auto experiments. Profitless dealer car sales.

Customer Net-Profitability Insights

- Many accounts assigned to reps are unprofitable
 - Too small for “relationship” cost/call.
 - 20% of Bigs are biggest losers
- Selling Model changes
 - Hive off minnows to Small-Account model?
 - Team support + incentives + no downside risk to: fix big-losers
- 3% of Bigs respond to team for McD’s, 3PL-system path
- Fading, old-school, profitable-customer territories?
- Profitable, switchable brokerage reps? No change!

Customer Whale-Curve:

Begs for 3-4 Different “*Service (cost) Models*”



Enterprise (1-4%) Team-Selling Process (?)

Process Steps*

1. Qualify Criteria
2. Cultivate/Foothold/Or Not!
3. Pitch doing: Audit, Tune-Up
4. Analysis
5. Proposal; upfront asks.
6. Install
7. Measure, improve, adapt
8. Maintain, expand (Cust. Centric!)
9. In/Outside Testimonials

* See Ex 59 at Merrifield.com

Specialists

1. Team Analysts
2. Acct. Cracker/Hunter* (CEO/You)
3. *VP SC Solutions*
4. Team Analysts
5. VP SC Solutions
6. ***CA.-Closet, SWAT Team***
7. Sales Rep (Hunter)
8. Hunter → Maintainer
9. VP SC Solutions

*Most Reps are neither hunters or maintainers.

Will they step up or not? Change pay on an account-by-account basis?

But! Rep Defection Fears Stop all Innovations

- In spite of:
 - Low turnover, aging, harvesting reps. Poor recruiting
 - All of the Model Drift Problems
 - Cloud Ecommerce (first mover) opportunities.
- Data-Free fear that:

“Reps will (all) leave and take (all of) their (equally profitable) business with them”.

Let's unpack and quantify this bundle of assumptions!

General, Data-Free, Awfulized Belief

Are all reps:

1. Equally coveted by (any) *consolidating* competitor(s) *Musical chairs?*
2. Able to find a better-value horse?
 - Are you a service nag v Secretariat competitor? (If so, next slide)
3. Able to switch 100%:
 - Conflict with competitor reps on same accounts.
 - All customers not 100% loyal to just the rep? *Score each acct.*
 - Losing net-unprofitable accounts/reps can boost profits!
4. Not able to see best longer-term return for both company and them?
5. Able to become *E-Sellers for Millennial buyers*? Or, redeploy to team-contracting for Bigs or staff Minnow Division?

Poaching Best-Reps Past, Present, Future?

- Top 5%, Service-Excellence Distributors (historically!):
 - Didn't lose reps to inferior competitors (horses)
 - Could cherry-pick, best, new reps from the rest (their farm clubs)
 - Future? Develop new, **E** and **3PL** reps from scratch? (Allegiance case)
- If “nice” rep relationships are your only “edge” (?)
 - Reinvent basic service excellence for target customers/customer niches
 - Team-sell, best, net-profitable customers.
 - Reps' comp rises, but “control” diluted as total loyalty grows
- In parallel, do rep-force analysis. Does each fit into e-vision.

Net-Present-Value, Rep-Risk Analysis

1. Sort reps into 3 piles
 - A - Best: wish we had more like them. Can be: **E, 3PL**, etc.
 - C - Wouldn't rehire. (Imposing them on customers!? **Rep avoidance**)
 - B – Not sure. Closer to the C pile?
2. Now rank finer on relative scale 0 to 100 basis (by 2+ people)
 - Add some best and worst reps (not on payroll) for perspective
 - List subjective attributes; discuss; weight
 - Consider their fit into Cloud Ecommerce Selling needs too!

Rep Risk-Analysis

3. Look at net-profit ranking of their customers
 - For best accounts: What % of spend? Loyalty split: rep v company?
 - Odds of defection to which competitor taking what net-profit dollars?
 - Final loss potential? Assumption: you can always assure/keep best ones!
4. Do you have some obsolete reps?
 - C pile. Low overall rating. No new initiatives for awhile. Out of gas.
 - Few to no big net-profit accounts loyal to them.
 - Total territory under-penetrated and net, un-profitable
 - Rocket Roadster value? Call on small, lonelies to “win” small orders?

Case: 2 Reps Through the Net-Profit Lens

Rep	Invoices	Revenue	GP		NBC		Net		Comp	GP	NBC
Barnhill, Apryl	514	\$1,166,725	\$351,110	30.1%	\$250,638	21.5%	\$161,951	13.9%	\$88,687	25.26%	35.38%
Coggins, James	2,338	\$2,547,583	\$678,436	26.6%	(\$67,962)	(2.7%)	(\$203,620)	(8.0%)	\$135,658	20.00%	199.61%
	13,789	\$20,323,324	\$4,573,569	22.5%	\$1,572,604	7.7%	\$376,647	1.9%	\$1,195,957	26.15%	76.05%

- **Comp plan:** 25% of warehouse GP\$s; less for bids; more for direct ship.
- **Coggins #1** for most GP\$s; 26.6 GM% beats average of 22.5%. ***MVP!***
 - \$290/invoice good, but GP\$s/pick, free returns killers. ***Losing \$203K***
 - ***Doing what he is incented to do and lionized!***
- **Barnhill:** mediocre GP\$s from (inherited) inherently profitable accounts?
 - Past talent; future flexibility; inherited luck; mgt dictates; gazelles?
- Rank reps by different columns, discuss, and fitting into E-selling **2020?**

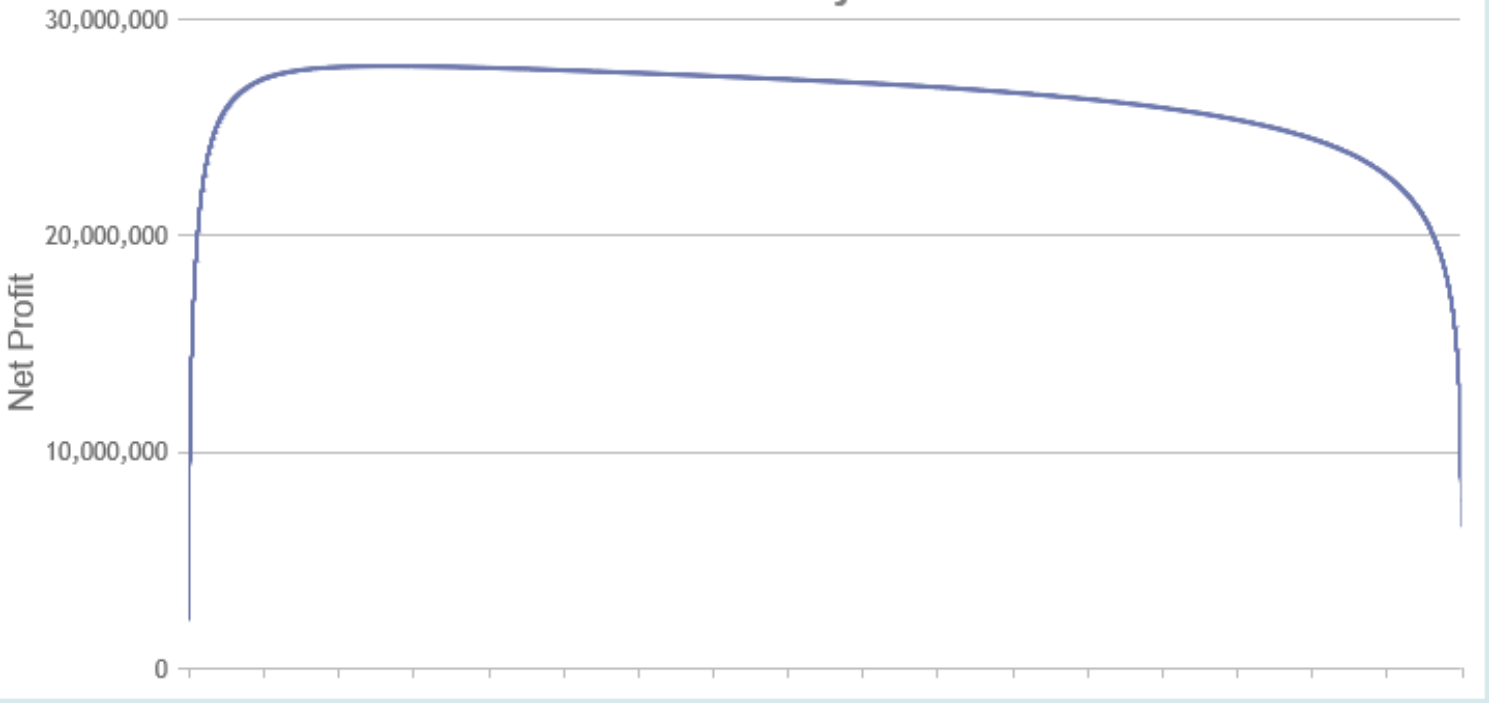
Transition to Cloud Channel Ecommerce: What (transition) Blend of Selling Models?

- Biggest Customers: Team-Sell McD's vision, 3PL solution
- (Profitable) brokerage accounts loyal to rep: ***no change***
- Account-Cracking Hunter with support team.
- (Profitable) Old-School buyers into fewer old-sell territories?
- Minnow Division: with web-order-entry, order-size incentives
 - Don't pursue more, small, losing customer orders (next slide case)

Can obsolete Rocket Roadsters be redeployed to Minnow and/or Account Cracking Support Teams?

Case: MRO Distributor Pursues Web Sales

Accumulated Profit by Customer



Order-size incentives?
Suggestion tools?
Not AMZ costs!
Distraction from?

Invoice Rev	2,249,625
Cust Disc	(2,933)
Rev J/E	5,874
Net Revenue	2,252,567
Invoice CoGS	1,570,584
CoGS - Other	(16,743)
Freight In	24,898
CoGS J/E	(14,535)
Net CoGS	1,564,205
Gross Profit	688,362
% (of revenue)	30.6%
Selling Exp	191,842
Sales Support Exp	361,825
Whse & Inv Exp	62,624
Shipping & Del Exp	16,801
Other Inc / Exp	(703)
G & A - Assigned	240,204
G & A + Other	664,054
Operating Exp	1,536,647
% (of revenue)	68.2%
NBC	(848,285)
% (of revenue)	(37.7%)

Customer Segments

Type	Customers		Revenue		Gross Profit		Expenses		NBC		Invoices		Neg %
HEA	500	2.9%	163,190,470	53.9%	37,147,884	50.7%	12,331,466	19.3%	24,816,418	265.9%	47,980	17.7%	81.2%
HPA	360	2.1%	41,690,896	13.8%	13,076,588	17.8%	9,133,443	14.3%	3,943,144	42.3%	34,604	12.8%	102.1%
PDA	517	3.0%	74,838,305	24.7%	17,276,172	23.6%	27,903,261	43.6%	(10,627,089)	(113.9%)	110,509	40.9%	152.9%
Reg+	1,852	10.9%	7,458,173	2.5%	2,263,802	3.1%	1,200,010	1.9%	1,063,792	11.4%	6,362	2.4%	49.4%
Reg-	13,774	81.0%	15,675,120	5.2%	3,528,985	4.8%	13,393,945	20.9%	(9,864,960)	(105.7%)	70,943	26.2%	113.7%
Total	17,003	100.0%	302,852,964	100.0%	73,293,431	100.0%	63,962,125	100.0%	9,331,306	100.0%	270,398	100.0%	121.0%

“Lollapalooza”* Melt-Down

- Model Stinks. Change to make Web Division Profitable
- Shift costs to all other accounts
- More – customers, orders, sales, GM\$’s - are good (regardless of CTS)
- Need new accounts to replace dying and defecting
- Acorns grow into Oak trees (4% do)
- Sales Force won’t like this.
- What herd of distributors are doing

What are the blind spots in these data-free beliefs?

What is the opportunity cost for partnering best, big guys?

* **Charlie Munger term**: when a batch of cognitive biases reinforce groupthink; irrational behavior takes over.

Do a DURRR? *D*ownsize, *U*pgrade, *R*efocus, *R*e-comp, *R*e-skill

- Buy Star's bottom 50% accounts yielding 10% income or less.
- Switch to guaranteed salary = Last year's W2
- Reassign core & target Bigs from Rocket Roadster (RR) territory
 - Instantly a bigger GM\$ territory + Big Upside (but no windfall comp)
 - Minnows from both territories to New Division. Re-deploy Roadster?
- Team-sell/support Star's focus on new upside
 - Sell total replenishment process refinements and economics
 - New incentive on Net-Profit improvement
- Migrate to a Team, specialization of labor model for Big Accounts

What are new net-profit streams?

New Profit Streams

1. Minnow Division becomes net-profitable
 - a. Hi'r prices. Min order. Freight unbundled. Web order entry + order-size incentives
 - b. *Harvest this pool profitably.*** Don't have AMZ cost-structure. Not your niche (?)
 2. Less total field rep expense with Roadster outplacements
 3. Star's salary immediately lower as percent of GM\$s
 4. Star quickly boosts old and new account spend (with team help)
 5. Net-profit bonuses are one-time. Salaries grow slower than GM\$s
- And: account reassignments easy and customer-centric flexible.***

Summary Thoughts

- Technology is changing logistics and selling for everyone!
- Straight commission is obsolete and stops all change
 - Digital Commerce - Customer-centricity, Showrooming- final straws
 - Need analytically informed transition plan with multiple selling models
- Segment customers and sell them differently
 - Old-school carve outs? Brokerage; old-school, profitable customers
 - Otherwise: Team; E-selling and small web models
 - Borrow selling models and new recruits/skills from other channels
- Conquer fear with: analytics, vision, and small-step experiments