

REWEAVE THE 'KINETIC CHAIN'* 

→ **Hi. Value/low cost = profit & brand value**

7. Incentives
6. Tools
5. Education (→ Skills)
4. Great People (apt. for “growing to”)
3. Systems (simple, flex., friendly)
2. Strategy (vision, values, UMP, SCA)
1. Leadership (People)/Mgt. (Science)

UMP - unique marketing proposition
SCA - sustainable competitive advantage *Article 2.1

Let's explain this business model tool with the common client request: "Bruce, what is the incentive plan that I should put in place to get a target group of my employees to change their behavior?" There is no best answer without first thinking through all of the "seven steps" in order. Can we?

- 1) Be a helpful coach/"leader" or do the hard management thinking to develop step 2, which is...
- 2) To create and clearly define for all employees a best, right "strategy" that will give us a unique marketing proposition with good barriers to entry for competitors.
- 3) Then, re-think and re-engineer all systems – physical, logistical, informational, personnel, educational, etc. – to consistently under-gird and focus all activities and resources towards fulfilling the strategy.
- 4) Overhaul my team to make sure that I have the right people who are capable of and eager to grow to where our strategy is taking us.
- 5) Provide the necessary education for continually re-skilling all personnel to do the new things we must do to keep moving along our strategic, value-added path.
- 6) Provide the right and necessary tools including information technology, investment in the right inventory to give the highest fill rates on the broadest one-stop-shop selection for a targeted customer buyer.
- 7) And, finally co-create a best, right, fair, strategically aligned set of incentives that employees will and can then respond to on a sustainable basis.

In the narrowest application of this tool, let's assume someone wants to do something at a random step; as an example, let's pick step 5, "education". Have the first four steps been thought through and changed to then collectively shape and support the step 5 initiative? By analogy, if the strategic goal is to win the Kentucky Derby, but we are trying to train (step 5, education) a donkey (step 4, people) with the wrong aptitude and attitude, will we get great final output results (sustainable profit power)? No, we are kidding ourselves. We must not have the right manager at

step 1 who is guilty of bad judgement, denial or both. And, we may not be using the right personnel selection systems (step 3) that often make managers smarter and wiser than they really are.

In a broader sense, the kinetic chain checklist can be used as an implementation tool for any program initiative and as a longer-term organizational development tool.

If we have a totally aligned and internally consistent kinetic chain for our business, then we will have – for our target niche(s) of customers – the best total, highest value proposition and the lowest total cost effectiveness. Because “best value” well sold will support highest possible prices, the difference between our value/price and low, effective cost structure equals sustainable profit power.

If we have consistent excellent value for our customers that is well communicated through all means, then we can maximize our brand value in the customer’s gut. Customers will say things like: “Sure they cost more, but they are worth it, because:

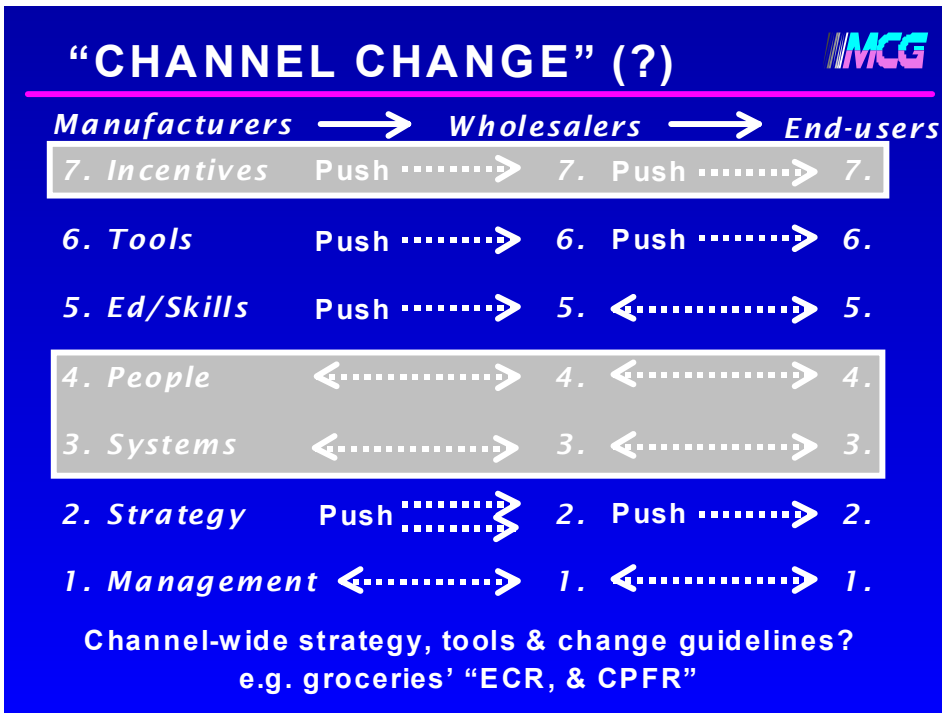
- I can plan my business reliably around them.
- They still offer the lowest total procurement cost at a higher price.
- I’m not interested in buying half-solutions or bargain price, bargain service or huge supply.
- Their total offering is unique and for me it helps me be more productive in ways that grow my bottom line.

The brand valuation by-product can not be maximized, however, unless every employee appreciates:

- The power of brands in their own personal life.
- What the company’s brand promise is to the customer.
- How they can and must do their job everyday to make sure that the brand promise is delivered.
- How the sustainable – premium price, gross margin dollars per employee and operating profit per employee – will all reward them personally over the longer term.
- Company value has to be sold with sizzle that gets noticed and taps into customers’ deeper emotions.

Companies should strive to have great strategy with aligned, kinetic-chain execution sold in emotionally appealing ways. Design, aesthetics, personal relationship energy, creative advertising, etc. are the icing on the value cake.

For more on the kinetic chain and how to apply it check out article 2.1 at our site: http://min.isisit.com/merrifield/articles/2_1.asp. This tool is also covered in module 5.10 in our video, “High Performance Distribution Ideas for All”.



This slide illustrates how the methods that emerge within an industry channel tend to prevent any player from changing their own kinetic chain significantly without getting big resistance from other channel members. When, for example, Dell started selling directly to the business world, the other PC manufacturers – IBM, HP, Compaq, etc. – couldn’t do the same because they had created a two-step channel with big wholesalers like Ingram Micro selling to lots of value-added dealers. Dell makes 100% of the profits in the PC industry off of about 25% of the total volume share; the rest lose money or break even.

When Wal-Mart declared that they didn’t want all kinds of channel promotions, but just one low net price that reflected all of the costs of creating and executing channel deals being taken out of the marked-up price, the packaged goods manufacturers took, on average, a long time to adjust. The manufacturers that quickly complied surged in volume with Wal-Mart. The laggards who said: “We can’t do that, because: all of our other retail customers still want the programs; our brokers wouldn’t be happy; etc.- – all took a big dive in market share. In a similar way, most mature channel players have been slow to switch from product promotion push-selling to demand-replenishment pull supply chain solutions driven by large end-users mature, repeat needs.