

ASSUMPTIONS BEHIND THE “5-5-5 REPORT”

INTRODUCTORY POINTS/ASSUMPTIONS:

If you read article # 2.20 title "A Strategic Management time Management Exercise" http://min.isisit.com/merrifield/articles/2_20.asp, note point 7 that refers to the 5-5-5 report. The following explains the logic behind this monthly one page branch report.

- If you all will now get paid on exceeding PBIT targets, then management must help to take three categories of customers – core, target and lead2gold – to the next level. Sales reps generally can not do this on their own. There may be rare exceptions.
- The biggest, fastest, easiest source of incremental margin dollars with the highest flow-through to the PBIT line will come from selling more old items to best, most trusting, most open-minded customers on a systematic, larger order size basis. (That’s why we must all super-focus on the top 5 most profitable, core customers within the historic #1 niche of customers at each branch.)
- The biggest, fastest source of operational slack creation needed for re-deployment into taking better care of better customers will come from turning lead accounts into gold. This will answer the “we are too busy putting out today’s fires (minimally as opposed to knowledgeably) to do new stuff that we know we should be doing.
- Even the 2 or 3 out of 10 big losers that won’t work with you will become profitable because you will still have the cherries that they need to pick.
- Longer-term, starting 6 to 9 months out, cracking today and tomorrow’s gazelle accounts will be the biggest source of future profit growth.

Other items in this package:	Page
1. Article # 2.20 - A Strategic, Time-Management Assignment	2
2. Exhibit 31 - Question Map For Thinking About Most Profitable Accounts	4
3. Exhibit 32 - Lead To Gold Accounts	8
4. Article # 4.10 - Transform Big Losing Accounts To Winners	10
5. Exhibit 33 - Question Map For Cracking The Right Target Accounts	13
6. “Slide presentation: “Cracking Target Accounts”	15
7. The Ten Faces Of Innovation (www.tenfacesofinnovation.com)	28

A STRATEGIC, TIME-MANAGEMENT ASSIGNMENT

“I don’t have time to read a book or watch a video, Bruce. Ever since we cut back on personnel to get back to break even, all of us (management) have been swamped. Don’t you have any “one minute manager stuff” that can help us to improve our profits?”

What could I say to this durable goods distributor executive? He didn’t want to hear right then that the Tooth Fairy and simple, magic management bullets don’t really exist. Because he is a hard-working, conscientious, deadly serious and operationally smart fellow, I thought that I could get him to at least read a 1000 word turn around recipe for dramatically improving his profit line. If he could then create a new, one-page report on just 15 accounts from three different profit-enhancement groups, then his team would gradually shift their precious time towards activities aimed at the heart of where the company has secretly been making, losing and growing their profits.

If you feel time pressed and are frustrated with your profitability, you might want to start by skimming through the following recipe:

1. Assumption One: According to industry data, I think that most distributors are working too hard to make survival profits. The average distributor’s weak profits are not sufficient to finance enough growth and adaptation, let alone innovation, to attract and keep even average quality stakeholders – suppliers, customers employees, investors – working for and with them for the longer term. Who wants to ride a slowly, dying horse?
2. Assumption Two: The first step to improving profitability is to pinpoint exactly where in our business we make our best profits. Because the average distributor may now be getting 80 to 90% of their sales on commodity products, getting last look to meet the dumbest competitor’s lowest price on equally excellent, if not same brand products isn’t a competitive advantage. In mature commodity product channels, we must therefore be making our profits (and losses) from our customers. Who are the most profitable ones and who are the biggest losers?
3. Action Step One: Skim through the first 3 chapters of my forthcoming book, “Re-Inventing Distributor Profitability”, which are posted for free, easy access at www.merrifield.com. They will instruct you on why it is important, as well as how to simply rank all customers by estimated profit before interest and tax (“PBIT”) contribution. A typical distributor (and manufacturer) will find that: the top 20% of the accounts will generate about 150% of the profits; the next 60% are all close to break even; and, the bottom 20% are destroying 50% of the profits. Two sub-groups of accounts – the top 5 to 10 most profitable accounts per location that are the core of the business and the bottom 5 most serious, true losers – will demand some immediate management-led initiatives.
4. Assumption Three: About 5% of the potential customers in a mature industry, are “Gazelles” (perpetual innovators that execute very well), that will generate about 80% of the profitable growth for some supplier(s) over the next 5 years. If we can total-team sell, crack and partner these accounts, they will grow us. Where are these customers on the profit ranking report? Are they in the same customer niche as 3 or more of our top 10 most profitable accounts? If so, do we have a lot of the one-stop-shop, basket of items (and related support skills) to sell them?
5. Assumption Four: If we are selling into a mature industry of customers, are they suffering from their own excess-capacity, margin-eroding pressures that necessitate their buying commodity supply goods at the lowest “total procurement cost”(TPC)? They may all have different, unarticulated definitions for TPC, but most are receptive to being sold on a replenishment system that will measurably reduce

- TPC. Can we define what TPC is for each niche of customers and fill this need on a tailored basis better than anyone else? Are our sales reps fluent and skilled at selling and installing TPC solutions?
6. Assumption Five: As important as some outside sales reps may be in maintaining many account relationships, they generally are not able to take core accounts, target accounts or big losing accounts to a “next level” economic, win-win, systematically reinforced relationship. Top management along with other team member selling visits will be necessary to call on their counter-part people within the key accounts.
 7. Action Step Two: Create a new one page report for all managers at all locations (The 5-5-5 Report) who should hopefully have incentives tied into improving PBIT. This report should list about 15 key accounts spread over the three sub-groups of: biggest, current PBIT generators; gazelle targets; and biggest, current losers. Publish both the latest month and year-to-date vs. last year-to-date PBIT numbers for these accounts. At the bottom of the report, write: “What are we doing right now to: keep and grow best account PBIT; crack and partner Gazelles; and turn loser lead accounts into profitable gold ones? There is nothing else we can do with our time and resources that will make as a big a PBIT-growth impact then making progress with these accounts.”
 8. Assumption Six: Many managers will look at these reports and seemingly do nothing for up to 5 to 7 months, but they will start to notice things and think about things that will eventually motivate them to act.
 9. Action Step Three: If and when anyone does act with success or initial favor, use these case studies to instruct and motivate all others.
 10. Action Step Four: Because we can’t become a high performance company that delivers best total service/TPC value for one niche of target customers without the help of all employees, consider and discuss how all employees, including commissioned outside sales reps, can be tied into PBIT improving gain-sharing incentives.
 11. Action Step Five: Read article 2.19 at www.merrifield.com and run PBIT ranking and summary reports for each branch and each sales territory. Then, go back to step 10/action step 4 above.

CONCLUSIONS

If we want to make big, sustainable gains in profit improvement for our business, we must rethink our business in significantly new ways. Tinkering with details around the edges and doing the past harder will only give us more of what we have been getting. Because profits come from customers in mature commodity goods selling industries, we need to redefine our strategy around the profitability of our current and target customers by following the action steps listed above.

Big change isn’t easy. We need to look at new assumptions and hard data that will surface old unspoken rules that aren’t working so well, but are still emotionally dear to who we have been. Challenging and changing old rules is always a difficult and slow transitional process.

But, if we give people:

- a new north star in the form of a “KEY ACCOUNT PBIT IMPROVEMENT REPORT”,
- some new ideas for how to do next level moves for key accounts, and
- the right incentives.

Then, the collective perception and commitment to taking new, next level measures for these accounts will gradually shift as fast as it can. Don’t rush the process.

QUESTION MAP FOR THINKING ABOUT MOST PROFITABLE ACCOUNTS

BIG ASSUMPTIONS:

- No mathematical model will ever give us the true, discounted-cash-flow, net-present-value profitability ranking for our customers. The KISS approach to model making works best.
- Freaks of nature and most interesting opportunities happen at the “living edges” of ecosystems and our business. By looking deeply into what is going on at the extremes of our business via ranking reports, we are most apt to find new – knowledge, insights and methods – which can make our company different than the other, commodity-selling distributors.
- When we look at edges in our business through different lenses, we will see results that don’t fit with our traditional thinking. We need to first brainstorm on all of the questions we can think of and order them in a helpful sequence to then start pushing the “wheel of learning (Slide show # 11, Slide # 8 at www.merrifield.com) to make first good thought experiments followed up by some quick questions to other stakeholders to gauge their interest or resistance.
- As we develop new mental models for dealing with new results, we must also unpack the emotion-laden, old beliefs that don’t want to accept the new results (Slide show # 11, Slides 4 & 5 at www.merrifield.com). By blending what is still effective of the old with the new, we can then try pushing the wheel of learning to do rubber-meets-the road experiments.
- We will necessarily have to make “good mistakes” and start “failing forward” to get process-smart with new methods that will carry us to new north star, breakthrough results for all stakeholders.
- Below is a frontier question map for top 10+ most profitable customers. Can we look at both the list of customers and the questions to start a “dialogue” that will lead us to co-creating new knowledge by openly sharing: thoughts, history, facts, stories, feelings, etc.

QUESTIONS

1. Do you really believe that the customers at the top of the profitability ranking report are really that profitable? If we analyzed each one in depth and allocated more costs to them, wouldn’t they all still be in the top 10% of our accounts, or still super profitable?
2. What are the pros and cons of simple, complex or any activity based costing model for guesstimating customer profitability?
3. Assuming that the top accounts are screaming winners under any cost allocation assumptions, what should we do to insure that we don’t lose them? Would a good innovative offense to sell them better and more be a best defense?
4. How can we break the top 10+ accounts in to specific niches of very homogeneous customers?
5. Are there any customers that are a niche of one? Why? Could there be another one somewhere in our market to cultivate?
6. Looking at 2 or more “core customers” in a given niche can anybody remember how we happen to become the suppliers of choice for these customers and why/how we grew up together so that they became so profitable?
7. How and why did they get so big? How did they compete so well in their space?

8. What kinds of relationships have we grown with these accounts? How many people-to-people strands are in the relationship-rope that holds us together? If one key strand broke would the rest of the strands still hold? Should we tolerate any sales rep controlled accounts in which the rep is the only big strand and could take the customer to another competitor? Could we increase both the number and the strength of strands for both defensive and proactive, value-added purposes?
9. Have we earned their trust? Do we stock all that they buy very reliably? Are they heartfelt friends? How could we develop these kinds of relationships with 1 or 2 other large or fast-growing (tomorrow's whales) accounts?
10. What kind of customers order large quantities of goods in large average order sizes in contrast to those who kill us with lots of small orders? Are they very disciplined about their replenishment systems and habits for all of their repeat buying needs so that they minimize their small, rush orders to us and instead order less frequently in bigger orders with more line items?
11. How could we better target inherently profitable customers and avoid losing accounts or prevent losing accounts from becoming that way at the outset? A lot of our success involves some degree of lucky breaks meeting our good reactive efforts to jump on them. How do we systematically increase our luck?
12. If we examine the niches that have 2 or more customers within them, might we assume that they would buy common items and services from us? If we pursued the item analysis and cross selling methods of "ABC Supply" (Exhibit 25 - <http://min.isisit.com/merrifield/exhibits/CASESTUDYRethinkProfitPower.asp>, and Article # 2.22 - http://min.isisit.com/merrifield/articles/2_22.asp and the Support Notes), could that work for us? Why or why not? The steps are:
 - Do a common item needs analysis for biggest, best, similar accounts within a niche.
 - Beef up the fill rates for those items bought by 2 or more customers.
 - Print out custom lists for each customer of what they haven't been buying from the common list.
 - Assign a project manager to review the list with each customer to see if we can change their purchasing systems (and habits) for buying a number of the oversight items on a systematic, larger average order basis to benefit us both.
 - Do a survey of the core customers in each target niche that identifies their common miscellaneous product supply vendors and items looking for more miscellaneous items that we can add to inventory and our new, improved, co-created replenishment system.
 - Make sure that all employees know the top X most profitable, core customers by heart and that their reflexive answer should be "YES!" no matter what the customer requests or needs. (Could we give them all some case study training on what type of "heroic extra effort service(s)" they could possibly do?
13. If we can sell a complete line item (they want 10 widgets. We have and ship them 10), instead of eight now plus two from another branch, supplier or substitution move, what does that economically mean to the customer and to us? If we can sell them one more average line order per invoice that involves an already stocked item, how much of the incremental gross margin will flow through to the operating profit line assuming that the margin in the order already makes it a profitable one? Or from another angle, what cost parts of: selling/maintaining a customer; stocking an item; and order processing costs are all fixed and don't increase with order size?

14. The notion of becoming a more complete one-stop-shop source of supply for a customer niche to both lower all elements of their “total procurement cost” (exhibit 28 - <http://min.isisit.com/merrifield/exhibits/Ex28.asp>) and improve the customers’ average order size economics are the (hidden?) driving, organizing forces behind:
- why more people are buying more items from Wal-Mart SuperCenters; and
 - why big industrial accounts have been consolidating suppliers and even going to integrated sole supply deals.
- Could our sales force be better educated on the why’s and how’s of selling, installing, improving and maintaining win-win, demand replenishment ideas and systems for good-sized, local accounts that haven’t yet understood and demanded these total purchasing system savings? Why or why not? Should we change our education and incentives to help sales reps focus on selling and achieving win-win demand replenishment systems that are all profitable? (For more on shifting the mix of selling themes from less “product-push marketing” to more “demand replenishment system development” see article 4.9 & support notes at http://min.isisit.com/merrifield/articles/4_9.asp.)
15. If a customer has not requested us to work with them to take their buying processes to the next level to lower total procurement cost, what percent would be amenable to our teaching them total value purchasing system ideas? Or should we wait for them to get enlightened and react; or, wait for another competitor to try to steal our best accounts with a “breakthrough, new way to do business together”?
16. If we used the most profitable customers as proxies for all other customers in the same niche within a profit center trading area, how many customers would there be in total? After we get process-smart with our best, most cooperative, most creative core customers, should we work our way on down the ranking list for one niche at a time?
17. We need to look for more ways to more perfectly sell total value to the core customers in our #1 historic best niche of customers. How can we find some new opportunities?
18. What if we stapled ourselves to both their purchasing paper work flow and our billing paper work flow into and through the customers’ places? Could we find some inter-business, paper-based systems re-engineering improvement opportunities?
19. What if we followed the flow and use of our products through the customer’s entire business and utilization experience? Could we find ways to deliver the right product to the right place the right way every time that could significantly improve the customer’s productivity, lack of downtime or general satisfaction?
20. If we spend time hanging out with the people who must get and apply the goods we sell, can we find any frustration, excess cost or time inefficiencies in their world? How could we take that pain away and get rewarded for it?
21. Can anyone think of a customer niche for which the company found a “golden nugget” of additional service opportunity which allowed the company to gain significant, profitable market share? Can we do it again with a systematic discovery process? How will we know if we don’t “push the wheel of learning” and try some cheap, quick, good experiments? (How do you think P&G discovered that people were having a hard time lifting their jumbo Tide containers, so they put a spigot on the bottom of the big container?)

22. If we insisted that ALL employees at a profit center know by heart the top 5+ most profitable customers, should we give them some “Yes, what’s the question/problem Mr. Great Customer training? Ritz Carlton, for example, allows their housekeepers to spend up to \$2000 of company resources to smooth any customers ruffled feathers before having to check with a supervisor. But, they do give them some background and scenario based training.
23. Other questions that anyone can think of?

LEAD TO GOLD ACCOUNTS

ASSUMPTIONS

1. We can get by the shock and disbelief that big losers are big losers and start to ask how they grew up to be that way.
2. There is no faster way to create operational slack that can be dynamically re-deployed into achieving better total service value metrics.
3. We will find certain types of sub-categories:
 - a. those who grew up nearby on a hand-to-mouth, go-pick-it-up on the way to a job.
 - b. those who want a separate invoice (paperwork) for each item that is going to a different job or department. (Both have not valued their time to pick up or their true cost of paper shuffling, not to mention our costs and related losses.)
 - c. big institutions that have a we-don't-trust-our-employees, too-low, PO limit. So they come with 10, \$50 PO's to the counter.
 - d. we won a "big" volume contract which amounts to lots of miscellaneous repair parts needed by lots of little repair people in many parts of the plant or operating under one buying group umbrella.
 01. a big potential account promises the good stuff and lots of future business in exchange for a good contract deal which they use to just buy the shorts that their best buddy, top 2+ suppliers don't have. We are being cherry picked for our odd ball items and/or our situationally convenient location.
 02. we check with each department – purchasing, inside sales, counter, delivery, trade credit, credit/returns – to see if they can think of 1 or 2 customers who drive them nuts with expensive activity for the volume.
4. We will find generic solutions with customized flourishes for dealing with each sub-category and communicate success stories and lessons across all locations to encourage all to go after these accounts.
5. Management can visit a customer honcho with the ability to see the total economics on both sides of the fence and the power to decide to "re-engineer" how they buy and make the win-win pitch.
6. For customers that are systematic cherry pickers, who aren't about to stop buying from their buddies, we can make the unilateral statement of: "we have to make a profit or we can't keep doing business" which is followed by new prices and terms that will allow us make a profit on the current ordering pattern we are getting.
7. We can't raise prices, charge fees and tighten terms for incorrigible losers unless we are optimistic about how we can re-deploy or lay off operational slack that exceeds the incremental margin dollars that we will lose. Can that happen?

QUESTIONS

1. In the deeper analysis of the losing accounts, we should test to see if not only we might be overstating the losses, but also whether the losses might even be greater than they look. How could each scenario be possible? But, if either scenario is true, won't the accounts usually be certified big losers worth addressing?
2. These big losers will usually be assigned to a sales rep who is getting commission or total GM\$ credit for the account. Because the rep is not measured on "PBIT", they may immediately anticipate that they will be taking an income hit. How can we win their support during the transformational process of "lead to gold" or hardball, house account treatment for the cherry pickers?
3. How could we change our incentive plan for sales reps to give them a constant incentive to manage all accounts to be PBIT-positive and exceed some minimum average order size in GM\$?
4. Because management needs to go over the sales rep's purchasing buddies' heads to a honcho, they will be afraid that the buddies will be threatened and retaliate. How can we solve this problem?
5. Who on our side has a big enough title on their card and an opening line good enough to get into to see a high-enough honcho that can re-order a re-engineering of the buying processes and policies?
6. Who on our side is creative enough and empowered to change how we sell and service to come up with a customized, win-win, solution with a big losing account?
7. If we can persuade, 60-80% of the lead accounts to work with us and we reduce activity costs and boost average order size significantly, what will happen to the operational slack we will create? How do we measure it? How do we strategically redirect it or perhaps even lay some of it off?
8. If some big losers totally walk, are we happy with plan B that involves either:
 - a. Re-deploying slack where the benefits outweigh the minimal lost GM\$; or,
 - b. Laying of more personnel service expense people costs than we lose in GM\$ by at least a 2 to 1 margin?

TRANSFORM BIG LOSING ACCOUNTS TO WINNERS

More companies are starting to discover the huge, customer-strategy insights that come from doing customer profitability ranking (“CPR”) reports using even the simplest of activity based costing methods. (For more on how to do rankings and the insights to this link: http://www.merrifield.com/articles/Identify_Customer_Niches.pdf.) The CPR insight that yields the quickest benefits for the least amount of time spent is turning losing accounts into winning ones. But, few companies follow through on this opportunity, because they don’t have the alchemy skills in house to turn the lead accounts into gold. Read on to find out why they don’t, and how they could.

First though, a bit more on losing accounts: often as much as 60% of all active accounts can contribute minor to unbelievable losses for a company. The bottom 1% of all of the accounts will typically cost a company a magnitude of 20% of their existing operating profit. These accounts, as a group, are a big contributor to the smallest 40% of all company transactions that yield less than 5% of the gross margin dollars, but still chew up 40%+ of transactional activity costs.

The super-loser accounts are often big name or big potential accounts, each of which is applying its own perverse purchasing philosophy to the unsuspecting supplier. A few losers may be using their size to cherry-pick a company’s service capability and not pay for it, but the rest have been unknowingly pursuing purchasing assumptions and processes that cause big transactional costs for both parties.

What would you do with a list of 5 to 10 super losers per profit center? I know companies that have:

- Explained activity based costing and the ranking reports in great detail and repetition to both profit center managers and sales reps (without changing the sales reps compensation plan that is tied to sales or gross margin and not estimated operating profit per customer).
- Incorporated the big losers into a one-page, monthly reminder report for all profit centers. (See “exhibit 30” and “article 2.20” at www.merrifield.com.)
- Put freezes on hiring any new people until losing accounts are transformed, because big reductions in order activity creates operational slack that eliminates the need for extra people.
- Assigned undiplomatic managers to visit losing accounts who have then proceeded to alienate many more accounts than they have transformed and grown.
- Mostly wrung hands and gnashed teeth about low-to-no follow through.

WHY THE HESITATION TO CONFRONT?

Most managers – when they first look at CPR reports – don’t believe how extremely profitable and unprofitable the top 1% and the bottom 1% are respectively. The top 1% of the most profitable accounts can account for 35% to 50% of a profit center’s annual, operating profit, and these accounts will sport a profit rate as a percent of sales that is 3 to 4 times what the profit center’s return on sales is. (What are our renewed programs for not losing them and cracking 1 to 4 others like them?)

The super losers are also surprises, because their order activity – 1 to 10 orders a day – is usually considered “good”, plus they are often friends due to lots of interaction opportunities. Because managerial and sales time allocation for customers is way out of line with where the report says our bread is being both buttered and eaten, what manager or sales rep wants to believe that they have been naïvely misdirecting their time?

The first, defensive response from CPR report recipients is to attack the activity based costing assumptions used to generate the reports in an attempt to minimize the losses for the heavy-lead accounts. But, three big truths hold sway:

- The only way that an account can be at the top of the report is to have huge annual margin dollars and relatively few transactions; these are strong winners no matter what cost shifting and activity cost assumptions are tried.
- The only way that an account can be at the bottom is to have huge transactional activity and relatively low margin dollar contribution. They remain super losers no matter what new cost assumptions are used. In fact, when more detailed analysis is used for big losers, they are often found to be even worse due to non-moving, special stock, remote delivery costs, etc.
- If anyone wants to use incremental cost assumptions, then the rest of the overhead costs assigned to the accounts in dispute must be reassigned to all of the other accounts which makes the next few slices of super losers even bigger losers. All costs must be (re)assigned in every alternative analysis.

The second line of defensive reasoning is that: all of our operating costs are fixed, so that any incremental margin gains or losses directly impact the profit line. With this logic, if we drove away a loser with, for example, \$2000 in margin and \$17,000 in hypothetical transaction costs, we would take an immediate \$2000 hit to the operating profit line and would have \$15,000 of idle, can't be re-deployed overhead.

The rebuttal to this argument is that: we can persuade some of the customers to re-think how they buy to not only lower our transactional costs to serve, but their total procurement costs to buy. If we should choose to selectively drive away 2% of our gross margin dollars, for example, to free 10% of our transactional activity, then our operational slack could be dynamically shifted to other customers with a profitable sales growth future. If we are struggling to give existing, best customers quality service and to find the time to work on improvement agendas, we could re-deploy all newly freed operational slack in a positive tradeoff way.

At an extreme, if we have a profit center with lots of losing customers and some marginal employees, we could shape-up-or-out losing accounts while monitoring transactions per day per fulfillment process person. We could then know when to lay off the least productive person(s), so that we would be reducing operational expenses faster than losing incremental margin dollars from departing customers. Profits would grow while headache employees and customers shrink.

WHO'S THE ALCHEMIST WHO CAN TURN LEAD ACCOUNTS TO GOLDEN ONES?

Arguments aside, who on the payroll is capable of getting an audience with honchos at losing accounts to then convince them to change their inefficient purchasing ways often with some innovative, customizing process accommodations from us? This person needs to:

- Have a title that will get them in the door;
- Be fluent with both total selling and purchasing costs;
- Have experience in sketching out existing buy-sell processes as well as new (innovative) ones that are win-win; and,
- Conversational and problem-solving skills that can eventually convince customers to change their flawed, often unspoken purchasing assumptions. It takes great skill and tact to help customers see the "hidden costs" of their flawed ways that have been creating unnecessary high costs for both parties.

Sales reps are out of the running for this assignment. At large accounts, they tend to call on full-time purchasing people who don't have the purview to examine and change purchasing beliefs, policies or

procedures, they just execute what has always been and deny any problems. Even if a rep could get into a meeting with a honcho, they would be going over their best friend's head to discuss liquidating purchasing transactional activity cost which also happens to be their friend's job. Although buyers do worry about more effective purchasing systems, their freed time and talent can also be re-deployed more productively than tending to unnecessary paper piles.

Some Branch Managers can succeed with big losers that are so friendly that they are happy to change to help the branch. But, most branch managers don't have the education, experience and confidence to do an artful job with the rest, so they avoid them.

The designated alchemist is usually the CEO by default. An unusual, but effective alternative answer is to retain an outside consultant, experienced in lead-to-gold customer alchemy, who can work with a "vice president of customer supply chain solutions" in training. These two can tackle the lead-2-gold accounts at one or more profit centers and then write up case studies and guidelines for how to "do it" turning an "art" into a "science". At some point, the trainee can then proceed to take care of the super losers at all other profit centers and then do on-going maintenance as needed after quarterly analysis.

Lest you think that all lead-2-gold visits can end happily ever after for both parties, hardball is sometimes appropriate with about 20% of the super losers that are cherry-picking a company's unique items for sale or their most convenient location. These accounts are, otherwise, buying the big volume, on a profitable-to-the-supplier basis from the competition. Once an Alchemist has determined that cherry-picking is the game and that the customer has no intention of changing, then unilateral changes in pricing and terms to make the customer profitable is the answer. The cherry-pickers may threaten to stop all buying, but they usually resume their activity on the new terms, because the company still has, after all, the unique cherries that the customer needs.

CONCLUSIONS

Every customer, super losers included, intuitively wants to buy their goods at the lowest total procurement cost, and most actually want the supplier to make at least a minimal profit. The problem is that all accounts are not clear about what total procurement cost is and how well they are really measuring and achieving it. We need to help them change from unintentional lose-lose practices to win-win ones.

Roughly 80% of lead accounts can be converted into gold ones with great alchemy skills. Many can also buy more volume than before, because there is no more co-creative opportunity when two honchos sit down to re-think how they are doing business together. The remaining 20%, who are either cherry-pickers or total hard heads, will bluff and bluster about, but often comply with, new pricing and terms. The ones that do leave will paralyze another competitor that doesn't know its transactional economics. The freed operational slack will automatically flow to servicing the rest of the account base with good upside results.

If your firm would like to: relieve operational stress; do a better service job for accounts that matter; start growing personnel productivity and operational profitability; and win new business from old accounts, then: **why don't you quickly turn lead accounts into gold?**

©Merrifield Consulting Group, Inc., Article 4.10

D. Bruce Merrifield, Jr.
April, 2005

QUESTION MAP FOR CRACKING THE RIGHT TARGET ACCOUNTS

ASSUMPTIONS:

1. Only 1 to 3% of all competitors in a mature industry are both most disciplined at execution (“high performance cultures”) and perpetual innovators. These gazelles will organically consolidate (not acquire and turn-around in an operationally excellent way) the bottom 50% + of their industry (the “living dead” or “extinction in motion”). They will typically grow at 2 to 5 times the industry growth rate and make 4 to 6 times the pre-tax return on total assets that the rest of the industry averages.
2. If we crack these accounts and partner them, they will grow us and pay on time. But, we have to have a next-level, best value proposition; otherwise, why should they marry us or anyone?
3. Another 5 to 10% of the mature competitors are not great innovators, but they work harder and execute more consistently than the bottom 90% of the industry. They will grow at about 1.5 times the industry growth rate and make 2 times the return. They too will grow us and pay reliably if we can partner them.
4. 80% of all the future profit growth in our industry will come from 5 to 10% of the customers that are currently within the customer segments that we go after.
5. If a sales rep assigned to an account has not cracked it within one year’s time, the odds are that they won’t do it. Non-performing big potential accounts should be reassigned every year. Sometimes a fresh person with some account cracking management assistance can make things happen.
6. When a big potential account hasn’t bought anything from us, then we can try lots of experiments to get into the account, because we have very little downside risk.
7. The bottom 50% of any territory will typically generate about 10% of the margin. These accounts should be routinely hived off of all territories to allow other sales reps to have a crack at them, or, for the small accounts to be cycled through a telesales maintenance effort. Such accounts will often respond to and buy more from getting 12 to 24 proactive phone calls plus fax-grams. It’s more attention and information at a lower total selling cost, than calling on them face-to-face 4 times per year.

QUESTIONS:

1. Who are the good executing whales and gazelles that are not in our top accounts, but are within are #1 historic, best niche of customers?
2. What criteria should we use to evaluate who are top 5 out of maybe 30 such accounts? (If after 6 months of total-team, laser-beam focused efforts initially chosen accounts aren’t giving us encouragement, then we can always bump one or two and add others. The list is flexible and dynamic, not cast in stone for one year at a time.)
3. If we look at case studies of companies cracking and partnering gazelles, can we list their steps and generic methods as a blueprint for developing our own, home-grown, right-for-us capabilities? Stories to consider:
 - P&G and Newell with Wal-Mart and not be like Rubber Maid and Disney

- GE Jet Engine division's current wooing of Southwest Airlines
 - My experiences with Cat in Peoria from '74 to '76 and beyond; FedEx in Memphis from '76 to 78.
4. What will be our new – assumptions, vocabulary, concept building blocks, and mental models – that we use to go after this category of account? (See annotated slide show page 12.
 5. Who will be the “Champion” that spearheads the account cracking program? They will:
 - Do extensive background research boarding on corporate espionage.
 - Author the initial Socratic question survey that titled personnel will use with Pooh-Bahs as high up the customer's organizational chart as possible to get major, initial information and insights.
 - Deploy ex-budget strategic resources to make beachheads possible within these accounts.
 - Perhaps be the designated account cracker sales rep, (007) with a title, who calls regularly on the account
 6. What new raw aptitude talent and/or re-skilling training will we need?
 7. How much ex-budget, strategic funding should the Champion have for going after target accounts?
 8. Can we agree that our traditional sales reps who might have to share in some of the costs of doing extra efforts would be reluctant to invest their own money to crack accounts?
 9. In general, how should we re-compensate our sales force to:
 - Pay less for account maintenance and lots more for account penetration.
 - Allow for smooth reassignments of accounts amongst the sales force because the history and the bonus target levels go with the account reassignments, especially target accounts and bottom 50% that only generate 10% of the margin dollars in a territory.
 10. Considering that “A” accounts that would qualify for a sales rep selling demand replenishment concepts might have 24K per year or more in sales (\$400/month in gross margin), how many outside sales reps do we really need?

Cracking Target Accounts

Regular readers of our commentaries, users of our “high performance distribution” video and readers of our “strategy paper” (free via e-mail request from karen@merrifield.com), know that I recommend special management focus on several different types of “key accounts”. My taxonomy of special accounts includes:

- “core accounts” (most profitable in #1 best, historical niche)
- “target accounts” (most likely upside profit growers in #1 niche two levels: company-wide and sales territory)
- “gazelles” (core or targets that are top 3% innovative, fastest growers)
- “lead-into-gold accounts” (biggest losing accounts within #1 niche)
- “living edge/advisory accounts” (most progressive, core customers who help to co-create new total procurement value propositions on an experimental basis and then serve as testimonial case studies for the rest of the niche).

From my experience, sales reps who have been historically assigned to any of these key accounts will generally not be comfortable taking any of these accounts to the next level, even though they will be quite reassuring (and possessive) that they will. All sales reps can certainly have their own, territory-level, target accounts, but the most important company-wide “target” accounts (5 or so in total per location) are the focus of this slide show.

The following slides will address the following questions:

- How do you choose the right target accounts? What criteria should be used?
- Who should be assigned to these accounts (“ACCOUNT CRACKERS”) and is there an account development process that these special agents should follow?
- What role should the rest of the team play in helping to take these targets to the next level?
- What should we tell the rest of the sales force, especially the ones who have big potential accounts assigned away from them?

ZEROING IN ON BEST TARGET ACCOUNTS

1. Profit ranking → top 10 + → top 3 customer niches
2. Co-create a refined win-win, value proposition with #1-niche, top 5 most profitable accounts
3. Identify 5 best target accounts in #1 niche
4. Apply “hard matrix” total-team effort to top 5

Cracking Target Accts. # 2

“Target accounts are difficult to identify and settle upon because it is tough to assess their lifetime, expected profit stream when we initially don’t know much about them because we aren’t selling them much to begin with. We can know that their present potential purchasing volume is large, but we don’t know how much of that we can capture, how fast, how profitably and then how will the account grow (or shrink) over the next 10 years (“gazelles” are an exception, they will surely grow).

We will have to make a lot of guesses to come up with an initial, rough, expected value ranking. We should plan on reassessing the estimates, rankings and adding and subtracting from the group on a quarterly basis. This dynamic list will substantially settle out within 6 months and then additions and subtractions may happen every 6 to 9 months after that.

Here are some comments on the slide points above:

1. From the profit ranking report we can sort the top 10 or so accounts into one or more customer niches. Then, we can identify perhaps the top 20+ accounts within each niche for each location and decide how to prioritize those niches based on our assessment of our chances to become a dominant #1 value provider and share owner. 50 to 80%+ share of a customer niche per a location is my preferential goal. Our strategy paper goes into detail about how to sub-divide a niche by A-D accounts and by purchasing value (loyalty, total value, pure-price) groups.
2. We want to experiment towards developing and offering each target niche the most compelling total value proposition by carefully analyzing and interviewing our 5 best core customers. Database analysis will help us to identify what common items our core customers buy. Service insights will come from interviews that ask:
 - what other types of miscellaneous suppliers do they have in common?
 - why do they buy so much from us?
 - what do we and other suppliers do that bothers them the most? (The solutions will be service innovation opportunities.)
 - What are the ways that we can work together to lower their total procurement cost (TPC) and boost internal productivity opportunities?
 - Are they willing to work with us to experiment towards a better defined, tuned, best, distinctive value proposition with which we can lower both their buying and our total selling/servicing costs?
3. Once we have improved our total offering to our core customers, then we can then take it to what five or so best target accounts in the niche?
4. Because we will continue to sell most of our accounts through territories and decentralized branch operations, we will have to change how we go after these target accounts in a way that will persist. We don’t want our old ways to resist next-level, super-focused target account capabilities like a corporate immune system going after a new foreign agent. More on the “hard matrix” in slide 8.

TARGET ACCOUNT CRITERIA

1. Fit our #1 niche
2. Bigger
3. Have foot in the door
4. Easy access to lots of influencers
5. They have partnering track record
6. New honcho (x) new program(s); degree
7. (+) advantages over current suppliers
8. Highest expected volume score

Cracking Target Accts. # 3

Comments on points above: 1 and 2 – self-explanatory

3. It is usually a lot easier to go from being an accepted supplier, albeit a minor one, to a big one than it is to crack a stone-cold account. Super account cracker reps love the stone cold ones, however, because they can take bolder, more creative risks knowing there is no downside retaliation losses possible if they should upset the customer. High risk, high reward, little total downside.

4. The more people we can see within a company that interface with our products, services and/or buy-sell processes, the more opportunities we can find to cultivate supporters through all kinds of favors and to see ways for how we can deliver a more perfect one-stop commodity bundle with perfectly tuned services. Accounts that are strict about limiting multiple contacts cut down both the discovery and development rates for upside, creative possibilities.

5. We are looking for accounts that do make occasional supplier shifts based on rational, articulated, value judgements. They may rarely have a stated policy of finding the best suppliers and partnering with them on a win-win basis. If this is truly the case, they should be glad to give references of other types of suppliers with whom they have partnered. We don't want, on the other hand, to target accounts that haven't had a change in key procurement personnel or suppliers for years with no retirements imminent. Nor do we want to bother with accounts that buy from whomever has the lowest price each week; we can't co-create win-win, buy-sell supply systems with them.

6. If a new (turn-around) CEO or VP of purchasing, especially from the outside, has just arrived, this will put the static buying and price-buying accounts back into consideration. Top-down, new ambition will cause lots of internal motivation to find new best total value solutions, especially in purchasing. Entrenched suppliers become vulnerable to proving their worth all over again.

7. The number one incumbent supplier is rapidly weakening. In tough times, over-extended competitors get put on credit hold by suppliers, their fill rates then plunge and their best sales people and accounts can be poached. Skimming the failing competitor's best accounts and few, good people is far better economics than buying the dying competitor's entire portfolio of mostly losing – customers, people and inventory – for a "low, net asset value price".

8. Weighing all of the factors above make a best, initial guesstimate of expected value and be prepared to change them monthly, than quarterly and eventually every 6 to 9 months.

WHO CAN CRACK THEM?



1. “Dome sell” a sustainable, win-win system?
2. Be a “10” to all contract people
3. Intra-preneur who leads/uses total team support
4. Mono-maniac on a mission passion/creativity
5. Capable of corporate espionage
6. Makes/seizes “lucky” porthole opportunity

Cracking Target Accts. # 4

1. “Dome selling” is covered in the next slide; “a win-win system” is covered in slide 6.

2. “Be a 10” is slide 7

3. “intra-preneur” is a term for someone with entrepreneurial capabilities who works within a company. They can identify unmet, new needs and figure out how to invent a solution that can be sold for a price that exceeds the cost so a profit is assured. The invention process involves failing forward experimentation (see slides 10 and 11 in at this slide show link:

http://min.isisit.com/merrifield/articles/Knowing_Doing_Gap_slides.pdf

Entrenched people and systems don't like intrapreneurs because they cause change headaches and their successes embarrass the old order who were not seeing or seizing opportunities.

4. This type of person has to love making new value creation happen as well as blowing up the old, outdated order. This competitive spirit to show up the old order is one reason why they rub the old order the wrong way. But it is also the source of the persistence and creativity to make things happen.

5. When shaking down new accounts that have purchasing people who are controlling, paranoid (getting kick-backs of some sort) defenders of the past, our star will find other way(s) around these walls of resistance even if it involves what some might consider acts of deceit. Will the value-benefit ends for the customer justify the unethical means? It depends upon the judge; this is a gray area.

6. Lucky portholes are covered in slide 9.

DOMES SELLING PROCESS



1. Term
2. Bottom-up, cultivate spies, blockers, sponsors
3. Document TPC (x) specialization by dept.
4. Propose a deal that P. A.'s can't sign
5. Set-up summit meeting; protocol effect
6. Follow-up summit; liquidate P.A.'s job?

Cracking Target Accts. # 5

1. Dome selling is a metaphor that I have used for years to suggest putting a customer's total payroll inside a glass jar to carefully study, map and connect with in order to find supply/service needs that we can sell for less than they cost.
2. We will eventually want to build relationships between our top people and the customer's as high up as is necessary to create customized (to a degree) total supply-chain or total procurement cost (TPC) solutions that are long-term, win-win and evolving systems/relationships. Because we can't waste VITO's (very important top officers) time, we have to start at the bottom and through the back door to find out first hand what isn't working with current suppliers and what new value solutions can be co-created. As we follow product, related paper-flow and productivity effectiveness through the plant, we must try to endear ourselves through personal value/favor delivery to as many people as possible. These new sponsors and spies will then, in turn, give us more information about what is and isn't working; what is politically likely and unlikely to work; and who else to involve in making the new TPC reduction, bottom-line building solutions work.
3. By using the TPC model (http://min.isisit.com/merrifield/articles/4_2.asp), we can identify what the true hidden costs of the current purchasing practices are.
4. Because purchasing agents are not "lowest TPC solution creators and buyers", they tend to be able to only buy defined products in defined ways at lower prices/terms for maybe the same or better defined service levels. They can't authorize process re-engineering that typically crosses departmental lines and involves new paperwork flow and information technology support. These re-engineering, re-evaluation decisions can only be made by people higher up who can see and be politically (and financially) rewarded for successful total process re-engineering changes. If we want to make next level results happen for – the customer's total savings; our potential net profits; and, barriers to entry for our competitors who will always say "me-too, for less" – then, we have to do some process re-engineering. When we make a proposal to a (defender-of-the-past?) purchasing person, we have to design it in a way that the true savings are documented, and, the PA will be either a hero or a goat depending upon their decision. Will they become a (passive resisting?) sponsor and push it to the next level or will they reject the proposal and know that too many of their fellow employees will know that they made a bad, (self-serving?) decision?
5. When the decision on the new value proposition goes to the next level, it is important to bring in our next level managers for two reasons:
 - a) Customer honchos are more open and friendly to other honchos that they perceive are their status or higher (they don't normally deign to talk to sales reps);
 - b) Customer honchos are apt to ask for variations on the proposal to which the other honcho can immediately answer yes or no instead of a sales rep saying: "Gee, I don't have the authority to do that, let me get back to you on that." Customer honchos don't like creating and negotiating new solutions through messenger and the communication delays.
6. Once a deal is struck, change doesn't usually happen unless there are two champions for the new project: our account cracker and whom from the other side? (see steps 6-9 in slide 6.) New solutions will not only change old job definition activities, but they will liquidate job activity through streamlining, outsourcing and/or automation. Job activity incumbents will fight their own liquidation of both activity and authority. The two champions have to be prepared for these battles, and the seller's champion will have to be the tough cop.

NINE STEPS TO A SYSTEM



1. Qualify - a large potential partner
2. Cultivate & penetrate
3. Sell total economic feasibility study
4. Analysis
5. Proposal; summit; pre-install requests
6. Install
7. Measure economics; document equity
8. Maintain & expand
9. Secure & promote internal/external testimonials

Cracking Target Accts. # 6

This process slide is fully discussed in our “high performance” video module numbered 4.13. The first 5 steps are covered in the preceding slide (5).

Step six: For “installation”, our account cracker has to be good with both project and change management skills that start with these potential planning efforts:

- a) flow charting what currently is going on and the plan for what will go on;
- b) a list of the before and after benefits that will accrue to both parties;
- c) a list of what needs to be done by each and both parties with estimated costs and manpower allocations;
- d) an agreement on how the costs and benefits will be dynamically scored and shared;
- e) a schedule with PERT chart for getting it all done; and
- f) mutual agreement on what the customer’s key, new metrics for success will be.

Because the installation will cause transition management problems, account crackers might want to look at all of the slides in the “Closing the Knowing Doing Gap” show at this url:

http://min.isisit.com/merrifield/articles/Knowing_Doing_Gap_slides.pdf

Step 7: Metrics for success should be designed so that any shortfalls will serve as a constant goal for working on the new buy-sell system until maximum results have been achieved. The process of measuring results and the cost of implementing them should be documented so that everyone on both sides knows just how expensive it would be to switch to a new supplier that would have to come in and develop the same new, higher value delivery interface.

Step 8: Assuming we can be successful on a pilot project, then we can scale the new relationship to embrace all past purchasing that might fit into the new process as well as all new needs that come along.

Step 9: Problem: because TPC-reduction system solutions are complex intangibles that optimize a lot of hidden and inter-departmental costs that individuals don’t readily see or appreciate, individuals will focus more on the inconvenience of their changes instead of the bigger holistic gain. Next generation, departmental employees who don’t receive sufficient big picture economics education will regress to focusing on what is easiest for them individually. Other suppliers will promise to take their personal pain away for a lower price (but at unseen much higher TPC), and the old, better system will be thrown out for a “new, greater price savings, less personal hassle system”.

Solution: as we measure and document total system savings, we must get as many different individuals to bear witness to the new benefits in writing about the positive economic trade-offs between personal needs today and everyone’s bigger, longer-term benefits. These testimonials will help us educate the next generation of employees on both sides of the buy-sell fence, so that the system economics don’t decay and get brittle with age. Testimonials from top honchos can also be used to sell other potential accounts on our company’s ability to create breakthrough TPC savings through new co-created purchasing systems.

BE A “10”



1. Big buyers: “90% of salespeople waste my time”*

2. The Best?

The Worst?

Know my business

Make me think

Solve my problems

“Now” follow-up

Make things happen

Grow me and my profits

*NAPM Big Buyer Survey result Cracking Target Accts. # 7

1. The National Association of Purchasing Managers (NAPM) has a sub-group of the membership called “big buyers”. Don’t ask me what the qualification numbers are for such status. But, I have noticed that since 1970, the importance of, value of and access to “outside sales reps” has dropped dramatically while the value of inside sales reps has steadily increased. The underlying reasons for the big trend are probably:

- a. Inside reps are easily called whenever needed;
- b. Inside reps have ever more instant information/answer power from the terminals on their desks
- c. Outside sales reps had been introducing a lot of new, significant products to customers from WW2 to 1970 and fighting for extra allotments of product for customers during the chronic manufacturing shortages during that same period earning big loyalty. As an ever greater percent of a PA’s purchases become equally excellent commodities in a chronically over- supplied world, their needs shifted from new products and allocation protection to co-creating the lowest total procurement cost buy-sell system solutions.
- d. Even though the relative value of outside reps has dropped while their cost has risen, the key point is that “10% of the sales reps are still worth seeing”.

2. So, what should distributors do to make sure that all of their reps are in the top decile for their industry? Define what 10’s and non-10’s do, then insist and enable all reps to get on one of two paths: one to become a 10, the other to someone else’s payroll.

“HARD MATRIX” TOTAL TEAM SUPPORT



Thanks to the movie and TV series, “matrix” is becoming an over used, misunderstood word. In management theory, matrix organizational charts came into vogue in the mid-‘60’s. The idea is that every employee would have two bosses, a P & L boss and a process, project, and/or professional-expertise group leader. The goal was to knock down departmental silo’s and promote bottom-up economic creativity. Most turned into big power struggles with the new, cross-departmental leaders almost always losing to the P & L and product management bosses.

In this slide, the diagram on the left shows a typical distribution chain’s organization chart with its biases towards decentralized P& L cost control and geographic territory management. The right side suggests that a chain will have to establish a small, elite team of people measured and paid by new tracking reports that cut across all branches aimed at growing profits in all categories of key accounts. The account crackers may be regionally located overseeing 5 to 10 accounts at a time that may cut across a number of territories and a few contiguous branches.

A chronological agenda for the intra-preneur, change-master, account crackers might be: a) Turning lead into gold accounts with the regular outside sales rep tagging along. Once the customer has been transformed into a profitable one, often with the customer’s TPC dropping too, the regular rep can back to maintenance mode.

b) The intra-preneurs might then start to focus more on redefining the total value proposition with core accounts.

c) Then, work on target accounts until cracked and locked up on a win-win system basis ready to be turned back over to a maintenance rep.

d) Then do it all again for a second niche or a second wave of target accounts.

(“Braintrust/database”) The regional account crackers would convene regularly with top and local managers to share information on key accounts and to the work up the next round of open-ended survey questions for target contact people within target accounts. This process is best illustrated by case studies that are out of the scope of this slide show.

Other pre-requisites for getting big results are: new tracking reports with incentives based on change in operating profitability for the total key account pool and special funding to make things happen for target customers. The existing organization chart will not like playing second fiddle to the key account folks, but when breakthrough results start hitting local results, they will all jump into the parade.

LUCKY PORTHOLE CAPABILITIES



Cracking Target Accts. # 9

This diagram charts two factors on the vertical axis – the customer’s perception of the account cracker’s energy level and the volume we get with a target account. The horizontal axis marks time going by. If our account cracker is good at dome selling (slide #5) and has good team planning and calling support, they can break loose new chunks of business within 3 to 9 months.

What happens in the first three + months? Our cracker: finds out lots of new little opportunities; does lots of favors for new best friends under the dome; spends a lot of background time doing research and following up on odd little requests all to accelerate making things happen.

Then, about three months out a “lucky porthole” in the wall of customer resistance to new suppliers and ideas opens up for one or more reasons.

- ◆ Perhaps the customer has a new product need that appears, because of a new contract that they have won from one of their target accounts, and our hard-work has earned the chance to supply the new need.
- ◆ There is turnover in the decision ranks, and a new neophyte is looking for education wherever they can find it.
- ◆ Perhaps the entrenched supplier suffers a “that’s it” final, service failure. This can happen in tough times especially to the weakest competitor in a market. Perhaps we accelerated the competitor’s demise, by executing a successful small order/un-profitable customer program that has driven lots of new, empty activity orders to the competition which in turn causes a deterioration in service to their best accounts that we are targeting.

Whatever the reasons for whatever the lucky porthole opportunity, our agent must also be ready to see and seize the chance with extra-ordinary (team) effort. To strike comprehensively while the iron is hot may take 300% effort for a short period of time. Once we have totally secured the new business, then a bit of rest and recharging might be OK before continuing on at the 120%+ unrelenting effort.

This type of selling doesn’t increase volume gradually over the years through competitive attrition or both growing up with the economy, but rather in significant, new system-sell chunks.

How can a competitor’s sales rep on the account compete with a monomaniac on a mission who has extra research, team support, funding and ultimately a better basic and extra service proposition with potential buy-sell re-engineering capability? They can’t. Will you do this total strategy before your biggest head-to-head competitor for your number one customer niche does it to you?

RAIN MAKER REALITIES



1. “Luck” is the residue of design and work
2. Transformations take time, energy and creativity - a monomaniac on a mission
3. Downsize, upgrade territories (?)

Cracking Target Accts. #10

1. How do we explain the idea of making our own Luck? If we target:
 - ◆ the right accounts with:
 - ◆ the right agent
 - ◆ the right total team effort
 - ◆ strategic extra resources as needed

to ultimately deliver the best total value proposition that builds on our core capability that local competitors can't match, we will earn the right to be offered new or replacement opportunities by the customer. If we have far fewer service miscues than the competition then more customers are inclined to defect from the competitors to us than the other way. Aren't we making or waking up our luck?

2. Next-level, co-created value propositions will require breaking some eggs to make omelets on both sides of the buy-sell fence. If we don't have a great champion with good change management skills, it can't happen.

3. At the territory level, all sales reps can upgrade their skill sets to focus strategically on the 10% of their customers who together are the majority of the historic profitable volume and/or the future growth volume. Most of them don't "have the time" to work 120% hard on key accounts with bursts to 200%, because they are caught up in mindsets emphasizing activity, efficiency and a hope that too many smaller accounts will grow and be profitable. They are wasting too many calls on accounts that can never be profitable with the full cost of the outside sales rep factored in. (See the next slide, #11, for more.)

SALES TERRITORY MICROCOSM

	<u>Customers</u>	<u>Volume</u>	<u>Your Time</u>	<u>ROIT*</u>
Top	10%	50%	30%	High
Next	40%	40%	40%	Avg.
Bottom	50%	10%	30%	Low

*ROIT = return on invested time

Cracking Target Accts. #11

This slide has numbers based on gross margin \$ from accounts. If we used estimated operating profit #s from accounts, the numbers would be far more skewed with much greater sales time and cost mis-allocations.

The simple idea here is for each sales rep to give back the bottom 50% of their least profitable and least promising accounts to the house for reassignment to telesales or direct mail/house status to either turn into profitable accounts or price them away to the unwitting competition. Then, the reps could reinvest their freed 30% of their time back into target accounts with coaching and assistance from key account managers. The company could buy the bottom 50% of the accounts from the reps by giving them a check up-front for the 10% of annual compensation they might lose by not having the accounts. Then, the gamble is that if the reps invest their extra 30% of their time into 5 key accounts with big upside with team selling help, can they make up their 10% loss and then some by year two. If they are on the path to becoming “10”s who can sell TPC reduction solutions – for sure!

SUMMARY POINTS



- 1. Every distribution location can grow profits strategically with a few accounts**
- 2. It will take new:**
 - ▶ **Thinking**
 - ▶ **Talent**
 - ▶ **Organizational methods**
- 3. What's your next best alternative plan?**

Cracking Target Accts. #12

1. Every distribution location should determine their #1 historic customer (profit) niche to then:

- ◆ defend and learn from the core accounts;
- ◆ re-tune their total value propositions (TVP) for the entire niche;
- ◆ sell the continuing improving TVP to target accounts that are super-focused on by: new account crackers, strategic funding; and total team selling.

80% of a locations future profit growth can only come from a hand full of accounts in a mature industry; who are they? What are we doing much better than the competition to lock them up on a win-win basis?

2. If we don't change a number of things within our organization – mindsets, information analysis and reports, skills, political power, incentives, etc. – resistance from the total constitution of our old organizational body will keep results from happening.

3. If you don't do what this slide show suggests, what will happen to your best accounts that are being maintained by a nice person sales rep playing by the rules if your best, direct competitor sees this slide show and decides to act?

4. What other ideas do you have for growing profits better and faster than they have been growing?

DISCUSSION QUESTIONS



1. For estimating customer profitability, what are the current levels of sophistication for both thinking & software?
2. For estimating life-time, expected value profits for target accounts?
3. For “10” sales reps, describe in detail & with case studies the 6 points under “the best?”
4. Can you convert price-buying culture accounts into strategic value partners?
How?

Cracking Target Accts. #13

A large, empty rectangular area with a dashed border, intended for handwritten notes or answers to the discussion questions.

The Ten Faces Of Innovation X Best Account “Stories”

The "ten faces of innovation" below can also be thought of as: thinking-about hats; personality types (personas) that like to do one or more specific types of thinking/acting. The author has organized them in a chronological way.

Whenever we take a potential customer to the next-level of a relationship whether it be:

- more to the core with better or more comprehensive replenishment systems
- cracking target accounts wide open sooner by using unorthodox selling tactics
- Or, turning loser accounts from an activity cost view basis to winners

We are doing transformational tasks that few players on our team have ever done or can actually imagine. And, if some have done them it may often have been more out of reacting to or complying with a powerful customer or supplier that had a vision that they wanted us to be part of. We weren't the proactive force telling the big supplier or (potential) customer what was possible to co-create. We are, therefore, reluctant and disbelieving that these three main transformations can happen.

One way to practice using the "10 faces" tool is to take historical case studies – all exceptions – in which current team members have to play one or more of the roles to make a next level relationship happen. People like to hear about success stories that involve their most successful associates and most successful relationships on either the sell or buy side.

So, recreate those stories and determine who, if anyone, fulfilled the different, face roles during the creation of today's most successful relationships.

#####

¹The Ten Faces Of Innovation X Best Account “Stories”

The Learning Personas

Individuals and organizations need to constantly gather new sources of information in order to expand their knowledge and grow, so the first three personas are learning roles. These personas are driven by the idea that no matter how successful a company currently is, no one can afford to be complacent. The world is changing at an accelerated pace, and today's great idea may be tomorrow's anachronism. The learning roles help keep your team from becoming too internally focused, and remind the organization not to be so smug about what you “know”. People who adopt the learning roles are humble enough to question their own worldview, and in doing so they remain open to new insights every day.

The Anthropologist is rarely stationary. Rather, this is the person who ventures into the field to observe how people interact with products, services, and experiences in order to come up with new innovations. The Anthropologist is extremely good at reframing a problem in a new way, humanizing the scientific method to apply it to daily life. Anthropologists share such distinguishing characteristics as the wisdom to

¹ This explanation was copied from The Ten Faces of Innovation website without their permission.
www.tenfacesofinnovation.com.

observe with a truly open mind; empathy; intuition; the ability to "see" things that have gone unnoticed; a tendency to keep running lists of innovative concepts worth emulating and problems that need solving; and a way of seeking inspiration in unusual places.

The Experimenter celebrates the process, not the tool, testing and retesting potential scenarios to make ideas tangible. A calculated risk-taker, this person models everything from products to services to proposals in order to efficiently reach a solution. To share the fun of discovery, the Experimenter invites others to collaborate, while making sure that the entire process is saving time and money.

The Cross-Pollinator draws associations and connections between seemingly unrelated ideas or concepts to break new ground. Armed with a wide set of interests, an avid curiosity, and an aptitude for learning and teaching, the Cross-Pollinator brings in big ideas from the outside world to enliven their organization. People in this role can often be identified by their open mindedness, diligent note-taking, tendency to think in metaphors, and ability to reap inspiration from constraints.

The Organizing Personas

The next three personas are organizing roles, played by individuals who are savvy about the often counter-intuitive process of how organizations move ideas forward. At IDEO, we used to believe that the ideas should speak for themselves. Now we understand what the Hurdler, the Collaborator, and the Director have known all along: that even the best ideas must continuously compete for time, attention, and resources. Those who adopt these organizing roles don't dismiss the process of budget and resource allocation as "politics" or "red tape." They recognize it as a complex game of chess, and they play to win.

The Hurdler is a tireless problem-solver who gets a charge out of tackling something that's never been done before. When confronted with a challenge, the Hurdler gracefully sidesteps the obstacle while maintaining a quiet, positive determination. This optimism and perseverance can help big ideas upend the status quo as well as turn setbacks into an organization's greatest successes—despite doomsday forecasting by shortsighted experts.

The Collaborator is the rare person who truly values the team over the individual. In the interest of getting things done, the Collaborator coaxes people out of their work silos to form multidisciplinary teams. In doing so, the person in this role dissolves traditional boundaries within organizations and creates opportunities for team members to assume new roles. More of a coach than a boss, the Collaborator instills their team with the confidence and skills needed to complete the shared journey.

The Director has an acute understanding of the bigger picture, with a firm grasp on the pulse of their organization. Subsequently, the Director is talented at setting the stage, targeting opportunities, bringing out the best in their players, and getting things done. Through empowerment and inspiration, the person in this role motivates those around them to take center stage and embrace the unexpected.

The Building Personas

The four remaining personas are building roles that apply insights from the learning roles and channel the empowerment from the organizing roles to make innovation happen. When people adopt the building personas, they stamp their mark on your organization. People in these roles are highly visible, so you'll often find them right at the heart of the action.

The Experience Architect is that person relentlessly focused on creating remarkable individual experiences. This person facilitates positive encounters with your organization through products, services, digital interactions, spaces, or events. Whether an architect or a sushi chef, the Experience Architect maps

out how to turn something ordinary into something distinctive—even delightful—every chance they get.

The Set Designer looks at every day as a chance to liven up their workspace. They promote energetic, inspired cultures by creating work environments that celebrate the individual and stimulate creativity. To keep up with shifting needs and foster continuous innovation, the Set Designer makes adjustments to a physical space to balance private and collaborative work opportunities. In doing so, this person makes space itself one of an organization's most versatile and powerful tools.

The Storyteller captures our imagination with compelling narratives of initiative, hard work, and innovation. This person goes beyond oral tradition to work in whatever medium best fits their skills and message: video, narrative, animation, even comic strips. By rooting their stories in authenticity, the Storyteller can spark emotion and action, transmit values and objectives, foster collaboration, create heroes, and lead people and organizations into the future.

The Caregiver is the foundation of human-powered innovation. Through empathy, they work to understand each individual customer and create a relationship. Whether a nurse in a hospital, a salesperson in a retail shop, or a teller at an international financial institution, the Caregiver guides the client through the process to provide them with a comfortable, human-centered experience.