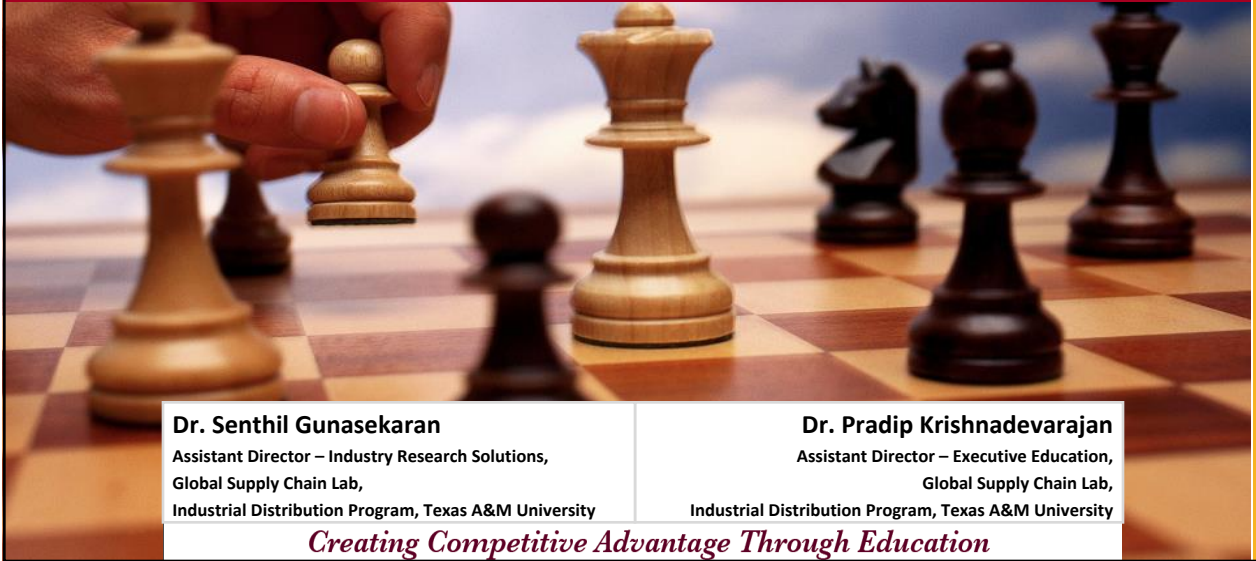


OPTIMIZING DISTRIBUTOR PROFITABILITY PRESENT & FUTURE



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Creating Competitive Advantage Through Education

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INDUSTRIAL DISTRIBUTION (ID) PROGRAM OVERVIEW



3

CLIENTS AND PARTNERS – 1



4

CLIENTS AND PARTNERS – 2

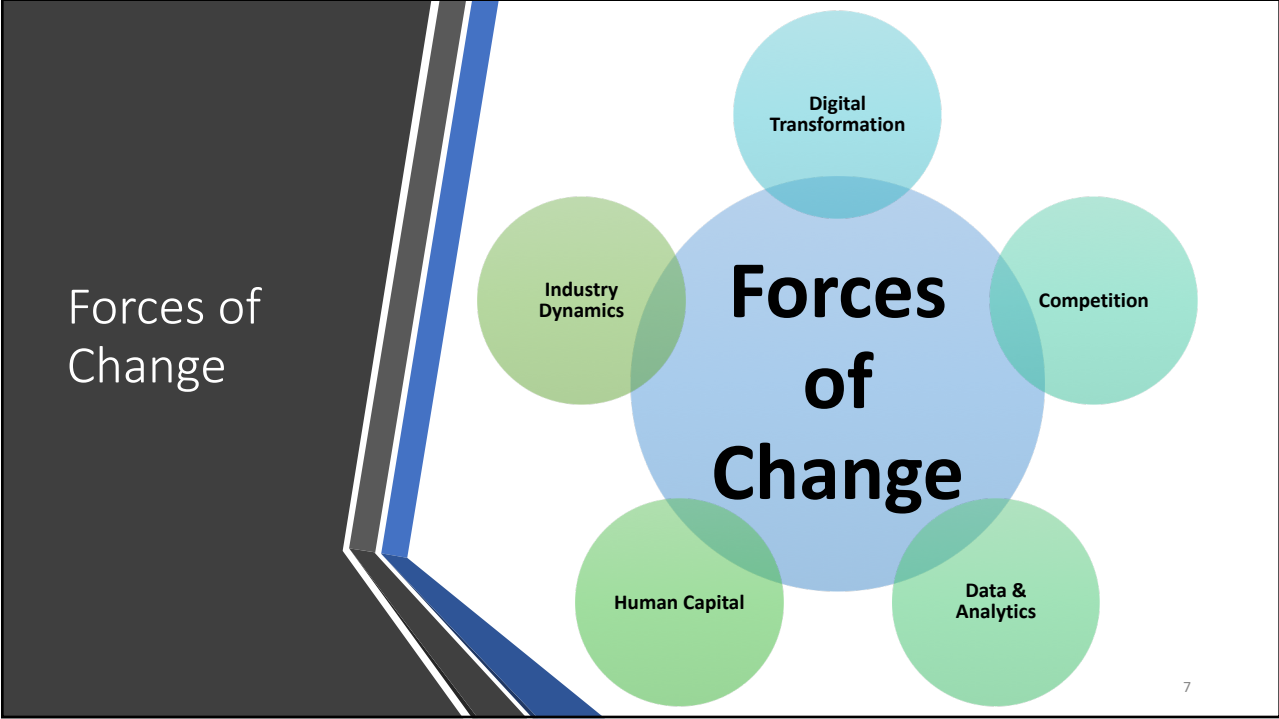


5

PAST RESULTS (SAMPLE)

PROJECT AREA	DISTRIBUTION CHANNEL	CLIENT REVENUE	PROJECT OUTCOME		
			Inventory Reduction/ Re-deployment	Service Level	Operating Cost
Inventory Stratification	Metals	\$ 1 Billion	↓ 17%		
	Pipe, Valve and Fitting	\$ 1 Billion	↓ 12%	↑ 7%	
	Oil & Gas Equipment Mfg.	\$ 1 Billion	⊖ 20%	↑ 6%	
	Paper Manufacturing	\$ 220 MM	⊖ 10%	↑ 3%	
	Hardware	\$ 125 MM	↓ 35%	↑ 3%	
	Fluid Power Equipment	\$ 125 MM	↓ 33%	↑ 8%	
	Building Materials	\$ 80 MM	↓ 22%	↑ 4%	
Network Optimization	Building Materials	\$ 500 MM	↓ 20%	↑ 6%	↓ 10%
	Auto Component	\$ 500 MM		↑ 33%	
	Automotive	\$ 4 Billion	Strategic Facility Location - Decision Making		
Pricing Optimization	Cutting Tool Manufacturing	\$ 300 MM	Strategic Facility Location - Decision Making		
	HVAC	\$ 500 MM	↑ 7% Increase in Gross Margin		
	Outdoor Power Equipment	\$ 75 MM	↑ 1.5 % Increase in Gross Margin		
	Industrial	\$ 750 MM	Pricing Optimization Methodology - Implementation		
Warehouse Management	Fluid Power Equipment	\$ 190 MM	Pricing Optimization Methodology - Implementation		
	Drilling Equipment	\$ 500 MM	Facility Layout Redesign and Process automation		
	Building Materials	\$ 500 MM	New Facility Layout Design		
Lean Distribution	Metering Equipment	\$ 20 MM	Facility Layout Redesign and Process automation		
	Pipe, Valve and Fitting	\$ 1.5 Billion	Warehouse Process Redesign / Improvement		
Global Business Feasibility	General Line Industrial	\$ 55 MM	Lean Process Improvement		
	Pipe, Valve and Fitting	\$ 1.5 Billion	Strategic Market Entry (CHINA) - Decision Making		
	Metering Equipment	\$ 20 MM	Strategic Market Entry (MEXICO) - Decision Making		

6



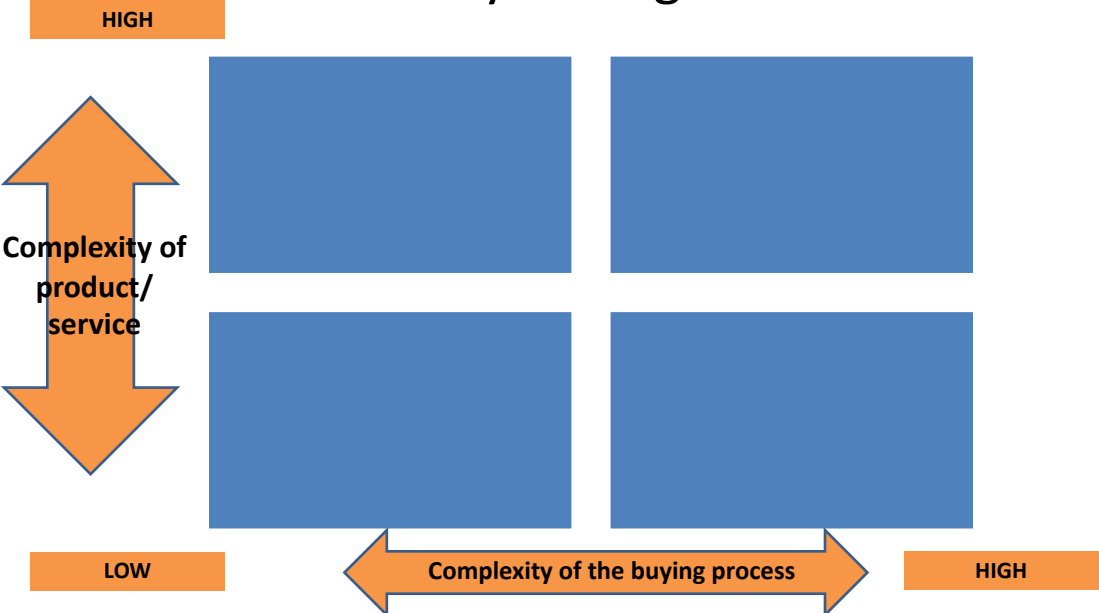
The screenshot shows the Forrester Media Center website. The top navigation bar includes "FORRESTER", "Insights", "Services", "About us", "BECOME A CLIENT", and "LOG IN". A search bar is located below the navigation. The main content area is titled "Media Center" and includes a sub-header: "You have questions; we have answers. The Media Center is the place to gain insight into our latest research, data, and analysis and connect with Forrester's PR team."

On the left, there is a sidebar menu with links: "About Us", "Executive Leadership", "Contact Us", "Analyst Briefings", "Media Resources" (highlighted), "Investor Information", "Careers", "Policies", "Terms of Use", and "Help Center".

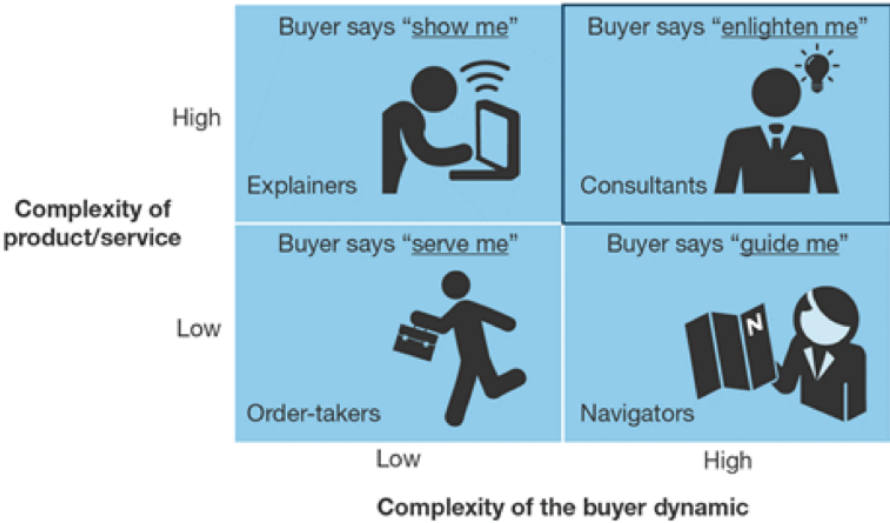
The main article is titled "ONE MILLION B2B SALES JOBS ELIMINATED BY 2020" and dated "APRIL 13, 2015". The article text reads: "Forrester forecasts 1 million US B2B salespeople will lose their jobs to self-service eCommerce by 2020, accounting for 20% of the B2B sales force. B2B buyers are living in a 2015 digital-first world, but B2B sellers are still living in a 1965 salesman-first world. New Forrester data shows that nearly 75% of B2B buyers prefer to buy online when purchasing products for work, yet just 25% of B2B companies actively sell online. Firms must adapt by building digitally enabled selling models that put self-serve eCommerce on equal footing with commissioned salespeople, writes Forrester. The effects will be felt most significantly by sales reps who are considered order takers — those serving customers who purchase self-explanatory products in a simple selling environment. This also includes the elimination of hundreds of thousands of entry-level jobs that allowed college grads to enter the workforce as salespeople."

On the right, there are three sections: "CONTACT FORRESTER PR" with email "press@forrester.com" and phone numbers for US and Europe; "CONNECT WITH FORRESTER" with links to "Forrester Blogs" and "Forrester Communities" and social media icons; and "MEDIA RESOURCES" with links to "Analyst profiles" and "Executive profiles".

Where is your organization?



9



Source: Forrester Research 2015-17

OBJECTIVE



Blind Spot

3 Strategic Responses

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STRATEGIC RESPONSE #1

OPTIMIZE CORE
BUSINESS *PROFITABILITY*

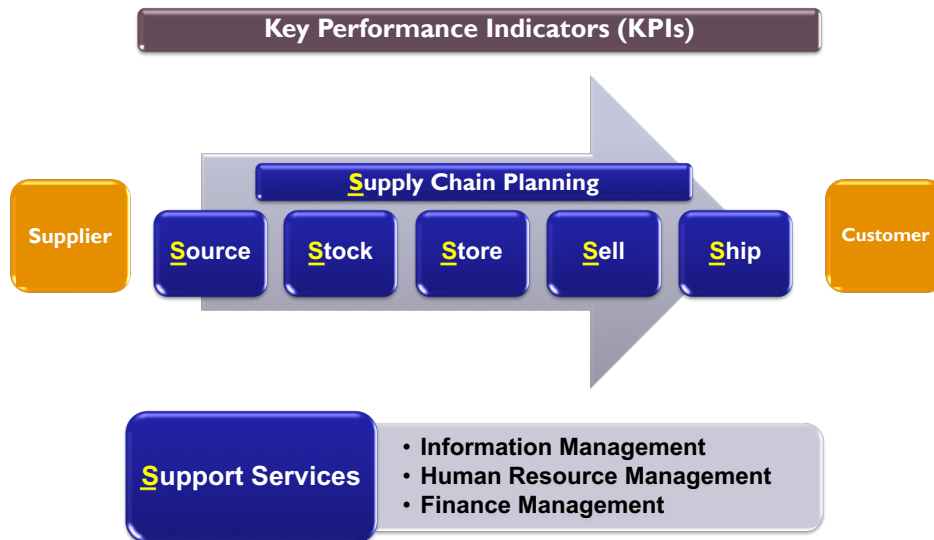
12

WHAT ARE THE CRITICAL BUSINESS PROCESSES?

<< DISCUSSION >>

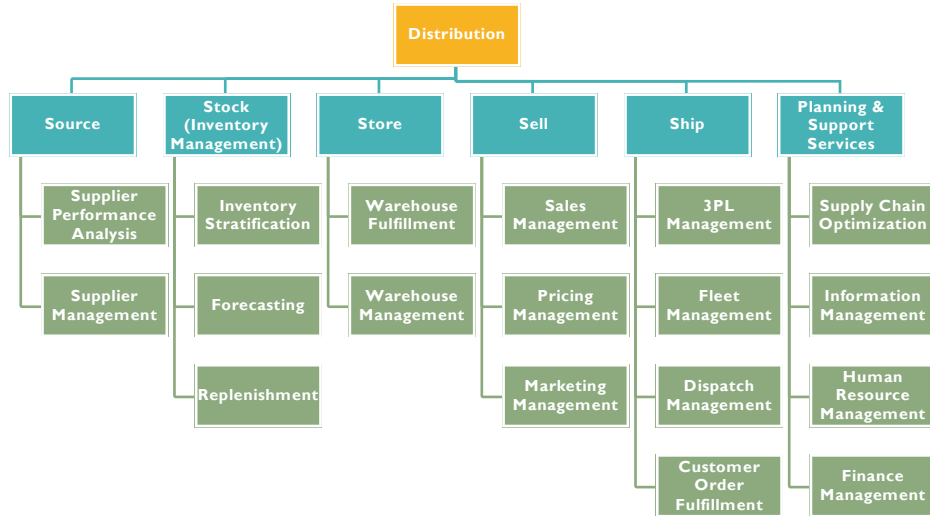
13

BUSINESS PROCESS FRAMEWORK (7S GROUPS)

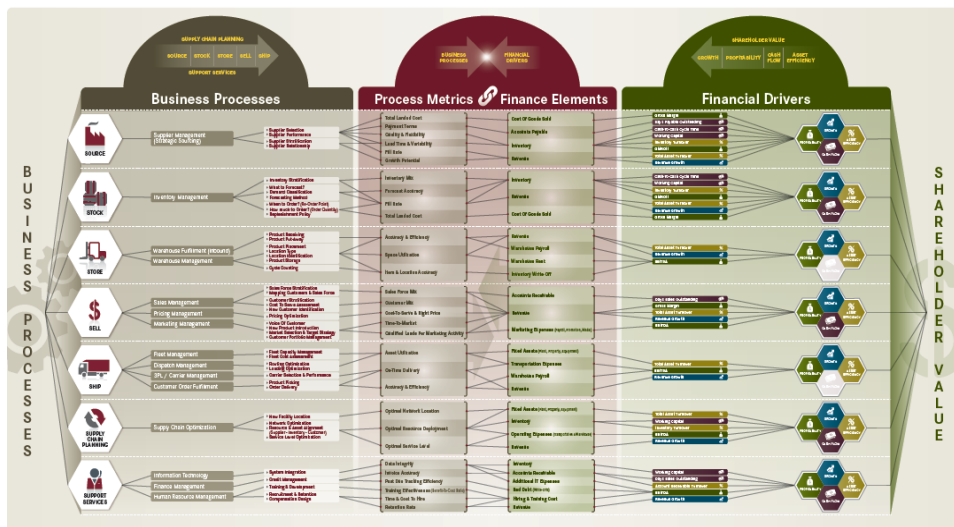


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BUSINESS PROCESS FRAMEWORK – LEVEL 1 & 2



DISTRIBUTOR PROFITABILITY FRAMEWORK



WHAT ARE THE KEY **FINANCIAL** PERFORMANCE **METRICS?**

<< DISCUSSION >>

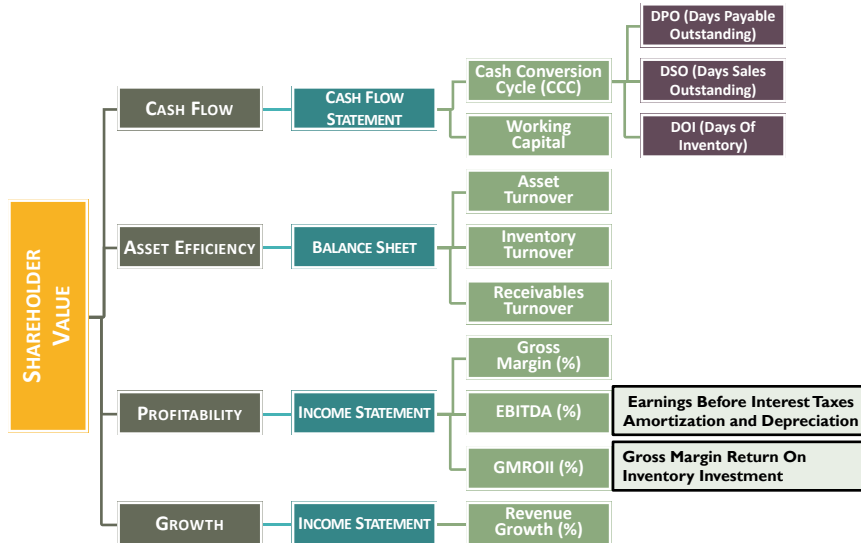
17

FINANCIAL DRIVERS



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FINANCIAL FRAMEWORK



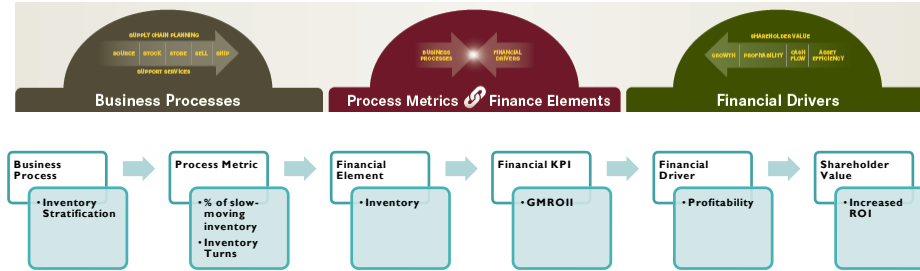
19

HOW DO YOU
CONNECT
 PROCESS AND
 PROFITABILITY?

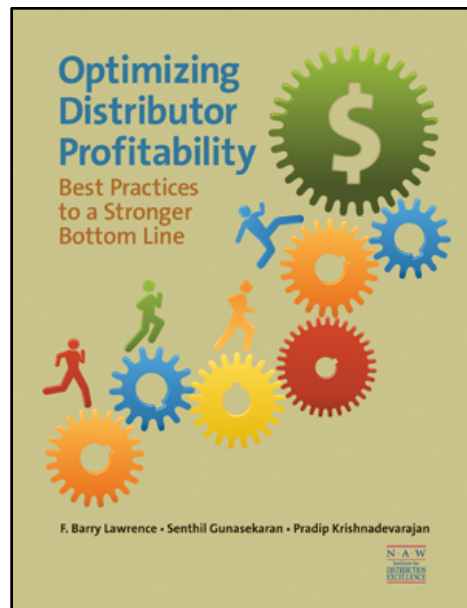
<< DISCUSSION >>

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CONNECTION TO SHAREHOLDER VALUE – EXAMPLE



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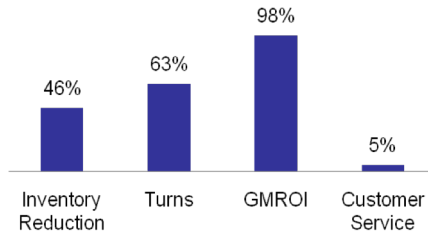
22

REAL-WORLD EXAMPLE

Process	Process Description	Process Assessment Criteria			Your Status
		Common Practice	Good Practice	Best Practice	
S2 Stock					
S2.1 Inventory Stratification					
S2.1.1 Inventory Stratification	Process of prioritizing inventory to determine "what goes where." Some critical dimensions are revenue, velocity, and profitability. The purpose is to classify items into a certain number of categories so that managing them on a day-to-day basis doesn't become unwieldy.	1. Inventory stratification is based on product line grouping and sales-based ranking. 2. No inventory stratification. 3. Stratification is not connected to purchasing.	1. Inventory stratification is based on a single dimension such as: a. Volume (Sales \$) 2. Logistics (FMS)	1. Inventory Stratification is based on: a. Profitability (CMROG) b. Multiple criteria 2. Combination methodology to arrive at final rank for each item. 3. Stratification in manufacturing: a. Lead time b. Product life cycle c. Asset utilization 4. Individual stratification methods for different demand types (dependent and independent demands) 5. Subjective sense of urgency needs to be considered based on industry-specific requirements.	

■ Process group ■ Process sub-group ■ Process

Profitability Improvement



Distribution Business Processes	Assessment			
	Common	Good	Best	Not Applicable
S1 Source				
1.1 Supplier Management				
1.1.1 Supplier Selection	●			
1.1.2 Supplier Performance Assessment		●		
1.1.3 Supplier Stratification	●			
1.1.4 Supplier Relationship Strategy			●	
1.1.5 Right Number of Suppliers			●	
S2 Stock				
2.1 Inventory Stratification				
2.1.1 Inventory Stratification		●		
2.2 Forecasting				
2.2.1 What to forecast?	●			
2.2.2 Demand Classification			●	
2.2.3 Forecasting Methods	●			
2.3 Replenishment				
2.3.1 When to Order? (reorder point—ROP)	●			
2.3.2 How Much to Order? (order quantity)	●			
2.3.3 Replenishment Policy		●		

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STRATEGIC RESPONSE #2

INNOVATE CUSTOMER VALUE PROPOSITION

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DRIVING PROFITABLE GROWTH

"The Growth frameworks provide the ultimate distribution playbook! We will definitely implement key best practices from these frameworks to leverage our growth."

Kavin Kampe, President,
Womack Machine Supply

A Distributor's Playbook to Generate-Manage-Sustain Competitive Advantage

N.A.W. INSTITUTE FOR DISTRIBUTOR EXCELLENCE

Senthil Gunasekaran · Pradip Krishnadevarajan · F. Barry Lawrence

GROWTH STUDY

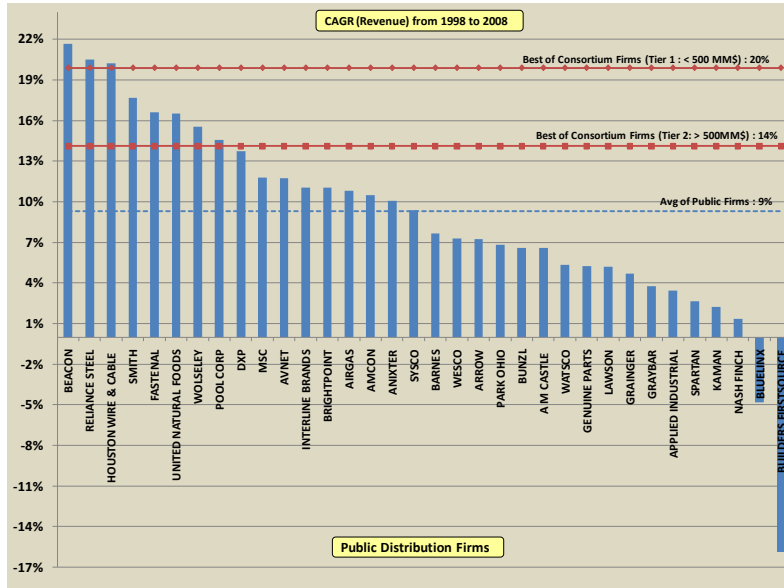
Question {

- What is the recipe for profitable growth in wholesale-distribution?

Research {

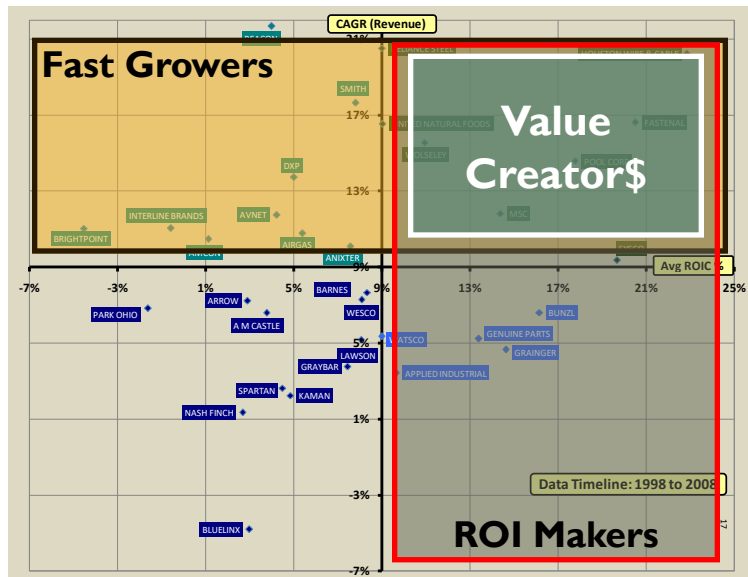
- 12 years of data
- 18 Private distributors (6 verticals)
- 34 Public distribution firms (10 verticals)
- 150+ best practice implementations
- 300+ professional development workshops over 15 years

REVENUE GROWTH RATE



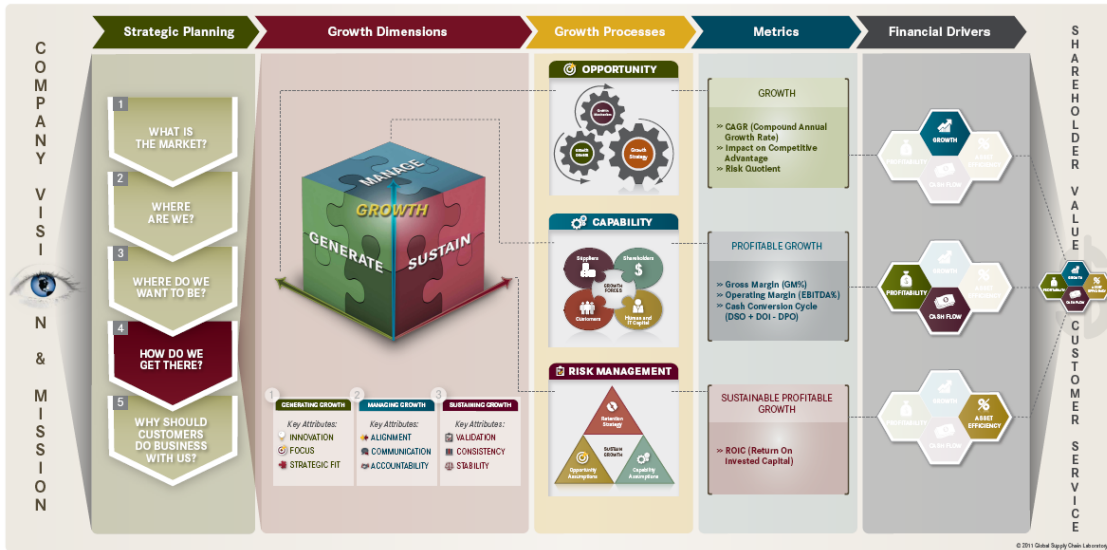
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ROIC vs REVENUE GROWTH



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DISTRIBUTION GROWTH FRAMEWORK



PROFITABILITY



GROWTH

FINANCIAL STATEMENT ANALYSIS

<< EXERCISE >>



CASH FLOW



ASSET EFFICIENCY



INCOME STATEMENT – TYPICAL DISTRIBUTOR

Financial Statement - INCOME STATEMENT				
Income Statement			Fixed	Variable
Net Sales	\$ 18,265,879	100%		
Cost of Goods Sold	\$ 13,662,877	74.8%	0%	100%
Gross Margin	\$ 4,603,002	25.2%		
Employee Compensation - Outside Sales	\$ 1,116,045	6.1%	25%	75%
Employee Compensation - Others	\$ 1,156,230	6.3%	90%	10%
Warehouse Expenses	\$ 551,630	3.0%	50%	50%
Delivery Expenses	\$ 558,936	3.1%	20%	80%
Other Operating Expenses (G&A)	\$ 270,335	1.5%	25%	75%
<i>Total Operating Expenses</i>	<i>\$ 3,653,176</i>	<i>20.0%</i>		
Operating Margin	\$ 949,826	5.2%		
Other Income	\$ -	0.0%		
Other Expenses	\$ -	0.0%		
EBITDA	\$ 949,826	5.2%		

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BALANCE SHEET – TYPICAL DISTRIBUTOR




Financial Statement - BALANCE SHEET		
Assets		By Total Assets
Inventory	\$ 2,151,378	37.6%
Accounts Receivables	\$ 2,318,892	40.6%
Cash & Marketable Securities	\$ 245,267	4.3%
Other Current Assets	\$ 243,552	4.3%
<i>Total Current Assets</i>	<i>\$ 4,959,090</i>	<i>86.7%</i>
Fixed & Non-current Assets	\$ 758,099	13.3%
Total Assets	\$ 5,717,189	100.0%
Liabilities & Net Worth		By Total Liabilities & Net Worth
Accounts Payables	\$ 1,217,190	21.3%
Notes Payable (Short-term Debt)	\$ 175,518	3.1%
Other Current Liabilities	\$ 296,150	5.2%
<i>Total Current Liabilities</i>	<i>\$ 1,688,858</i>	<i>29.5%</i>
Long-term Liabilities	\$ 615,170	10.8%
Net Worth Or Owner's Equity	\$ 3,413,162	59.7%
Total Liabilities & Net Worth	\$ 5,717,189	100.0%

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Financial KPIs	Formulae	Results
CASH FLOW		
Days Sales Outstanding (DSO)	Accounts Receivables / (Annual Revenue / 365)	
Days Payable Outstanding (DPO)	Accounts Payable / (Annual COGS / 365)	
Days Of Inventory (DOI)	Inventory / (Annual COGS / 365)	
Cash Conversion Cycle (Days)	DOI + DSO - DPO	
PROFITABILITY		
Gross Margin %	(Revenue - COGS) / Revenue	
Operating Margin (OR) Operating Profit \$	Revenue - COGS - Operating Cost	
Operating Margin %	(Revenue - COGS - Operating Cost) / Revenue	
GMROI %	Gross Margin / Inventory	
GROWTH		
Revenue Growth %	(Current Year Revenue - Previous Year Revenue) / Previous Year Revenue	
ASSET EFFICIENCY		
Inventory Turnover	COGS / Inventory	
Asset Turnover	Revenue / Total Assets	
Net Assets	Total Assets - Total Current Liabilities	
Return On Net Assets (RONA)	Operating Profit / Net Assets	

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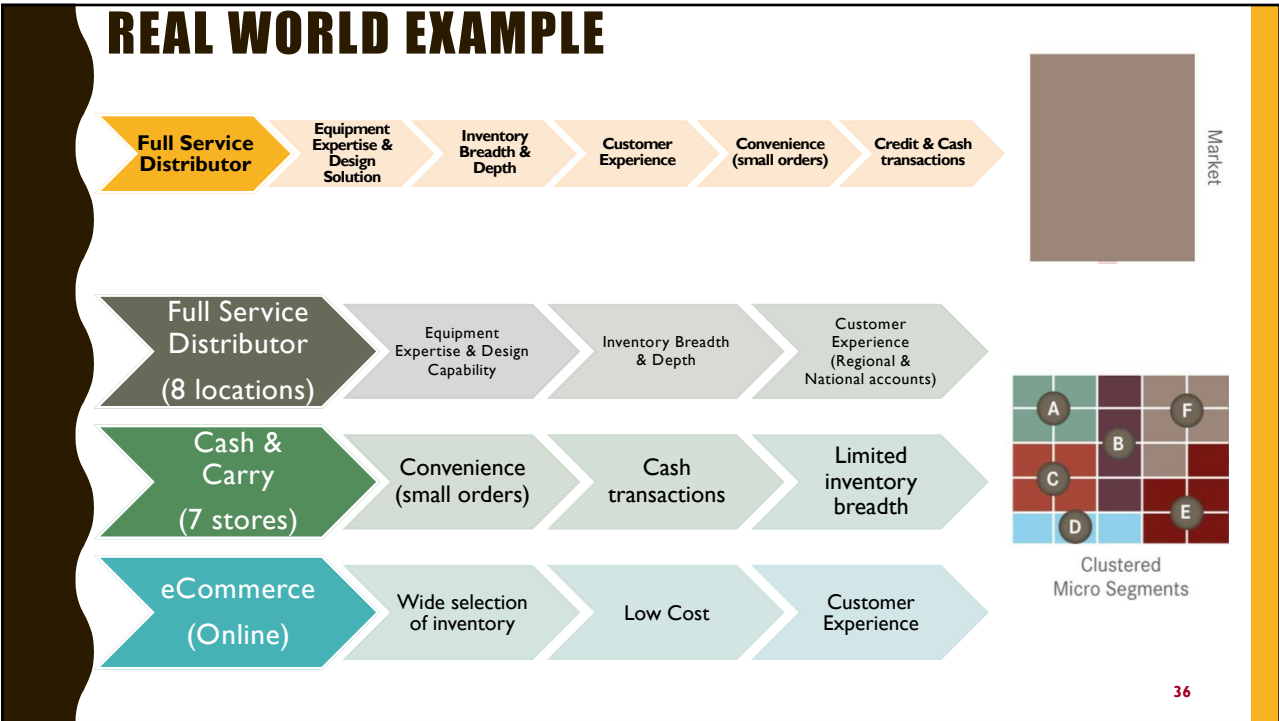
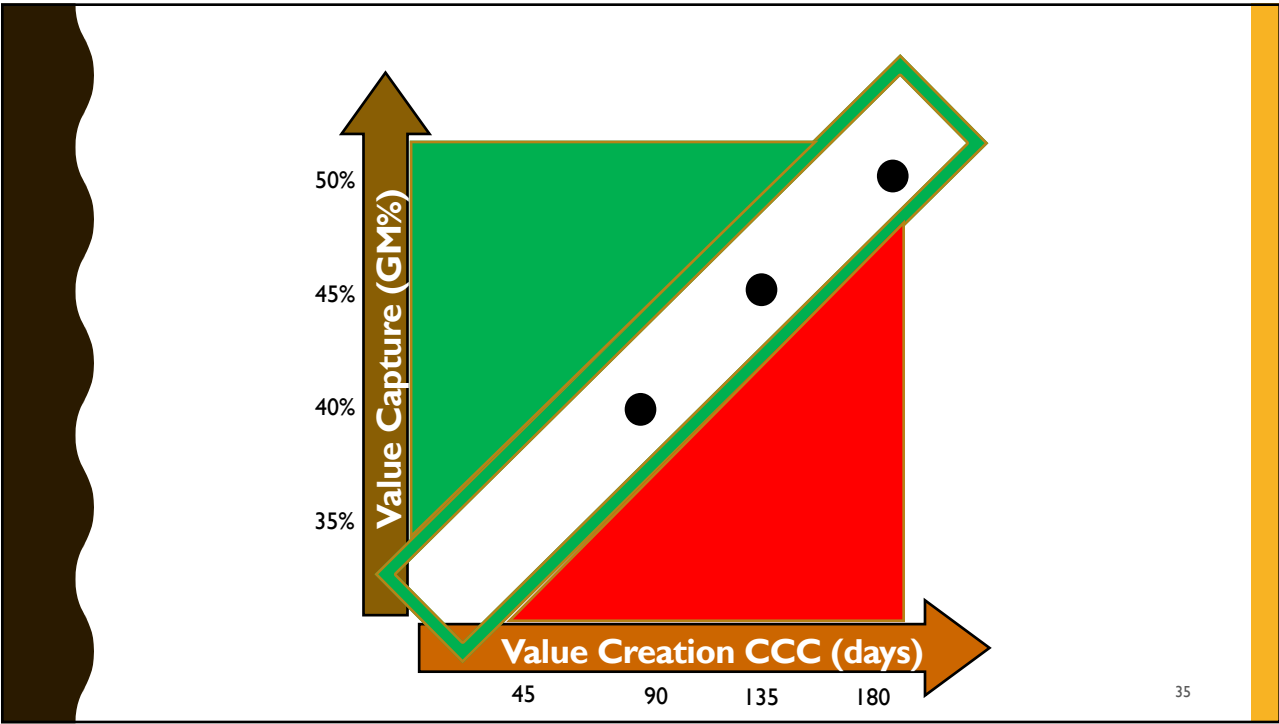
Value Capture Value Creation

Industrial Distributors	Gross Margin %	Cash Conversion Cycle (days) (DSO + DOI - DPO)
	40%	90
	45%	135
	50%	200

Cash Conversion Cycle is the length of time, in days, that it takes for a company to convert investments into cash flows.

CCC = Days of Inventory + Days Sales Outstanding - Days Payable Outstanding
 CCC = 90 days of supply + 45 days - 30 days
 CCC = 105 days

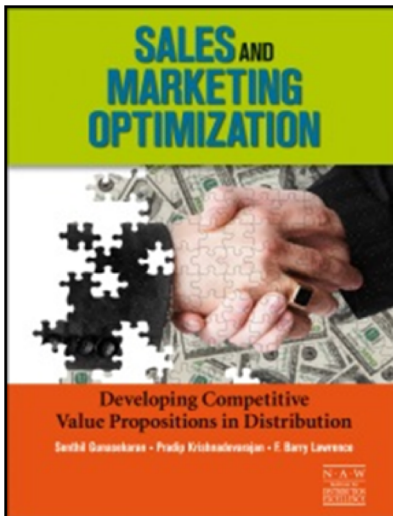
34



STRATEGIC RESPONSE #3

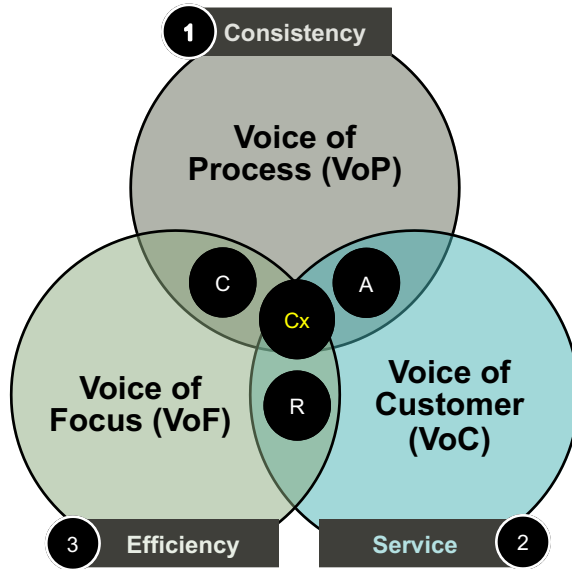
OPTIMIZE SALESFORCE DEPLOYMENT

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VALUE ALIGNMENT FRAMEWORK

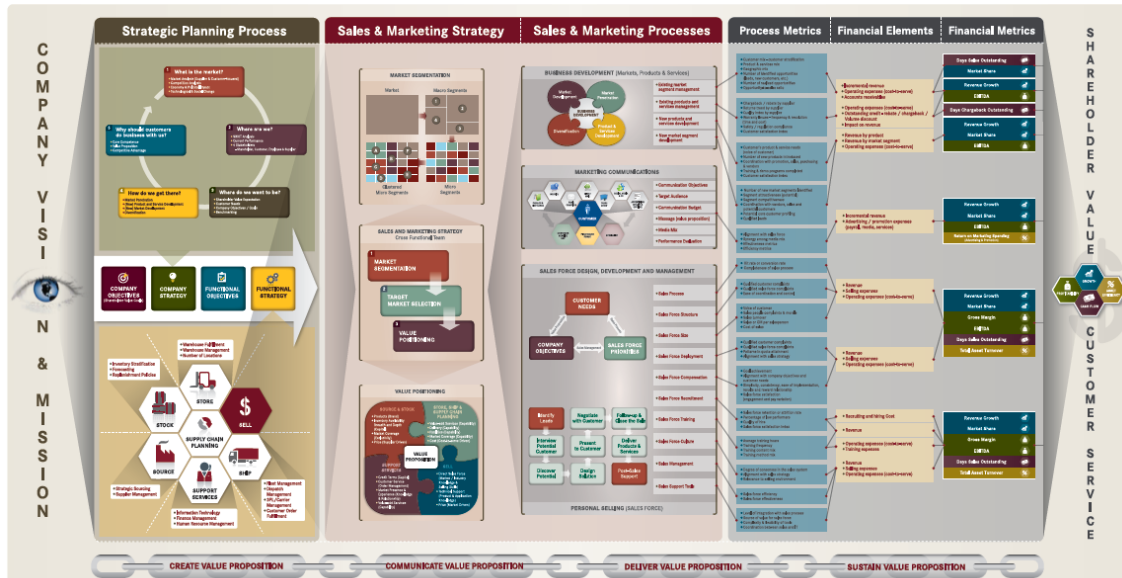


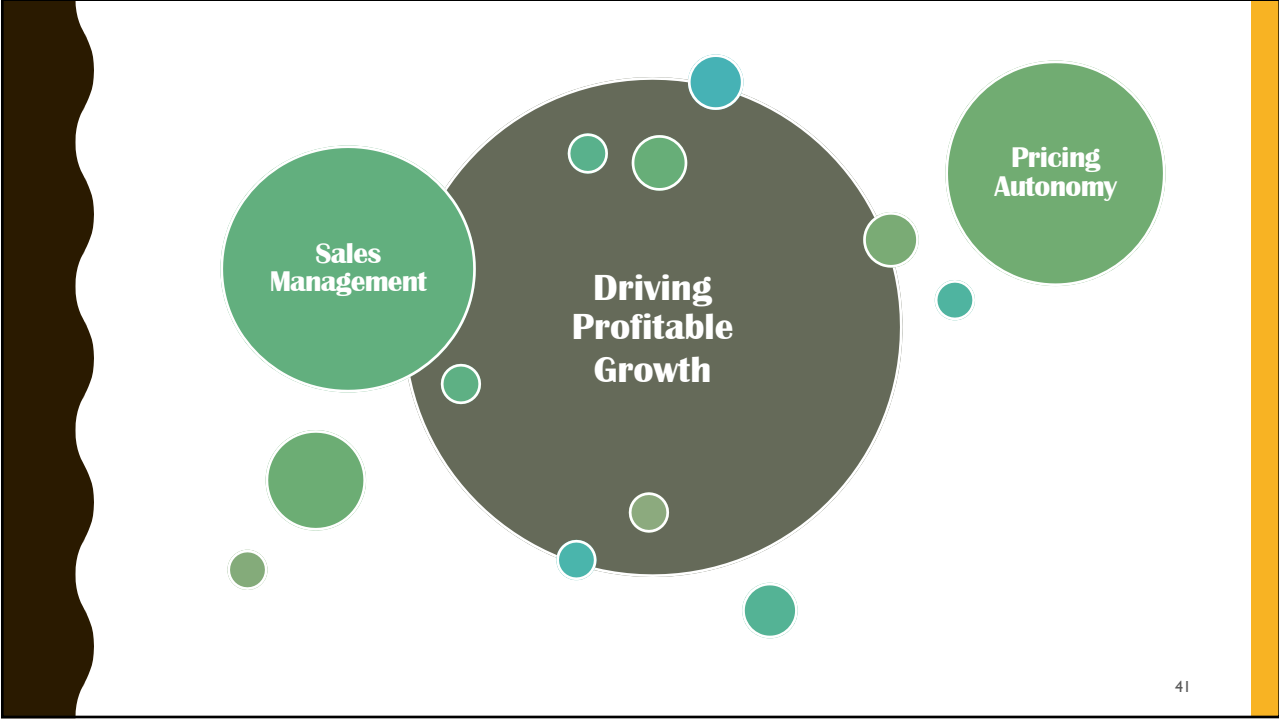
- A** Alignment
- R** Relevance
- C** Capability (Ux)
- Cx** Customer Experience

SALES AND MARKETING FRAMEWORK

Linking Sales and Marketing Processes to Shareholder Value & Customer Service

This framework is part of Sales and Marketing Optimization book by Senthil Gunasekaran, Pradip Krishnadevarajan and Barry Lawrence





LACK OF CUSTOMER DIFFERENTIATION

How we view our customers?



Who they actually are?

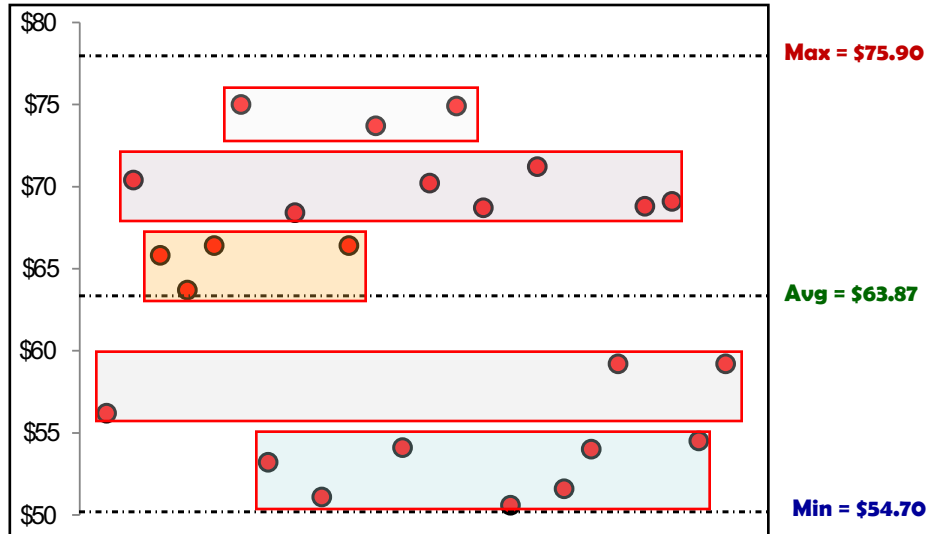


Get the order and we'll figure out a way to make money on this

If you had all the customers in your market – Would it make you highly profitable?

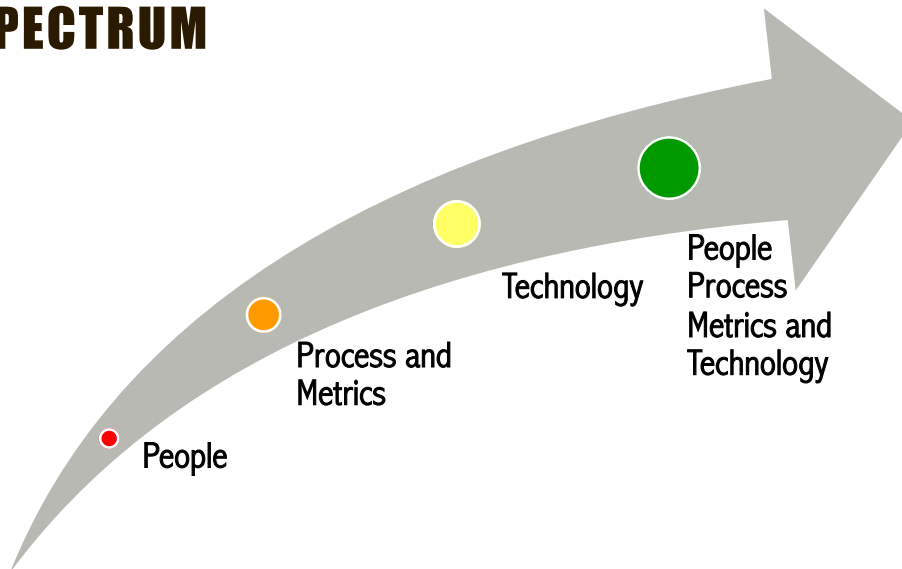
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INCONSISTENT PRACTICES (DISCIPLINE)



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'COMMON – GOOD – BETTER – BEST' SPECTRUM



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EVERYTHING BEGINS WITH THE CUSTOMER

<< DO ALL CUSTOMERS CREATE VALUE (EQUAL)? >>

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EXAMPLES OF CUSTOMER SEGMENTATION

American Airlines 

- Executive Platinum
- Platinum Pro
- Platinum
- Gold


Hilton

- Diamond
- Gold
- Silver
- Blue



- Platinum
- Gold
- Silver
- Enterprise Plus

- **Companies do not have unlimited resources and cannot be everything to all customers.**
- **Customers have different needs and preferences**

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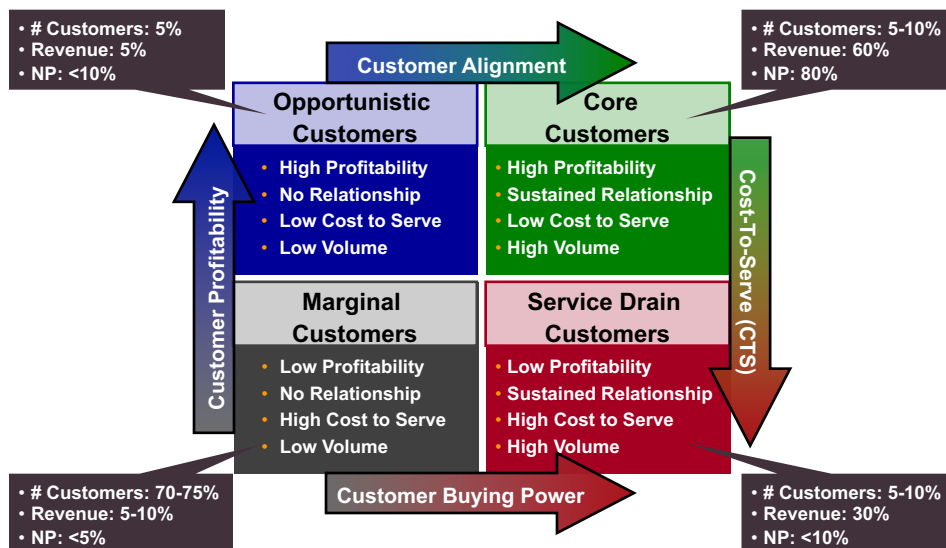
EXAMPLE – HOW TO SEGMENT CUSTOMERS?

Miles, Segments and Dollars Spent

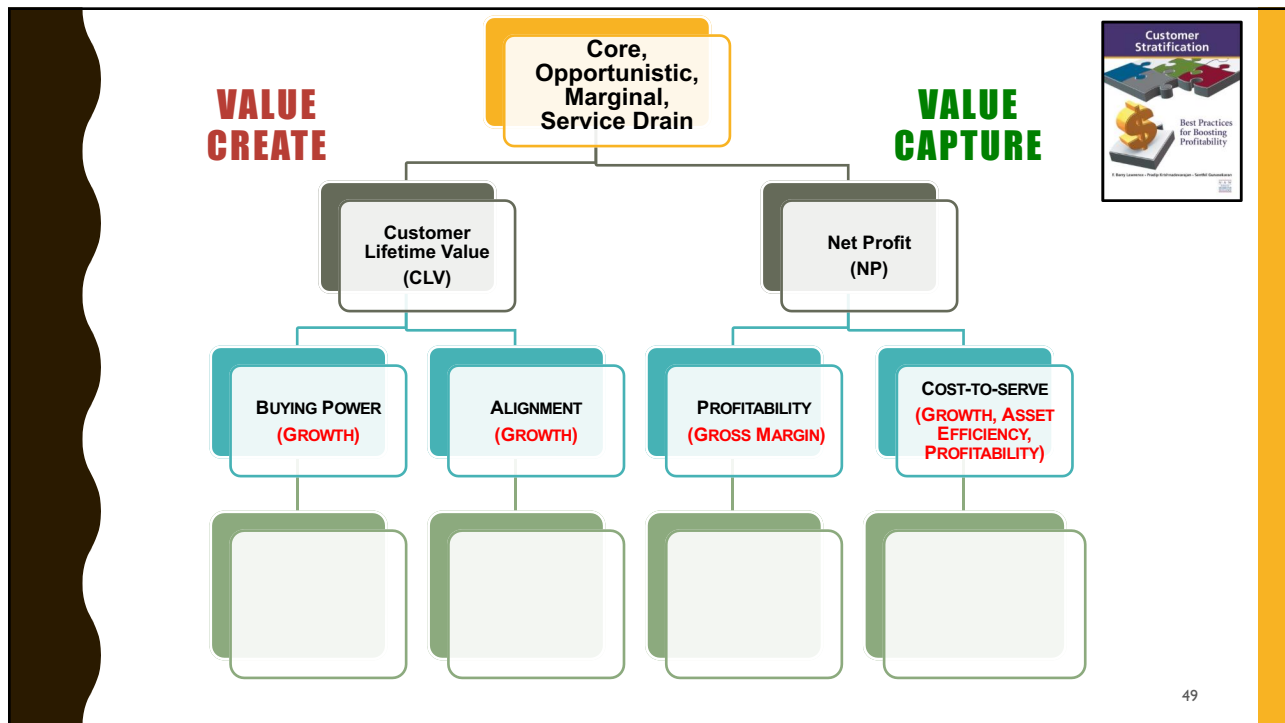
Executive Platinum oneworld Emerald	Platinum Pro oneworld Sapphire	Platinum oneworld Sapphire	Gold oneworld Ruby
100,000	75,000	50,000	25,000
120	90	60	30
\$12,000	\$9,000	\$6,000	\$3,000

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CUSTOMER STRATIFICATION FRAMEWORK



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Buying Power	Alignment	Profitability	Cost-to-Serve
--------------	-----------	---------------	---------------

List TOP 2 Metrics that represent Customer BUYING POWER?

- Sales in the Recent 12 Months
- Number of Items Accessed AND Line Penetration

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Buying Power	Alignment	Profitability	Cost-to-Serve
--------------	------------------	---------------	---------------

List **TOP 2 Metrics** that represent Customer **ALIGNMENT**?

- Sales Trend Over Two Years**
- Hits – # of Orders OR # of Invoices**

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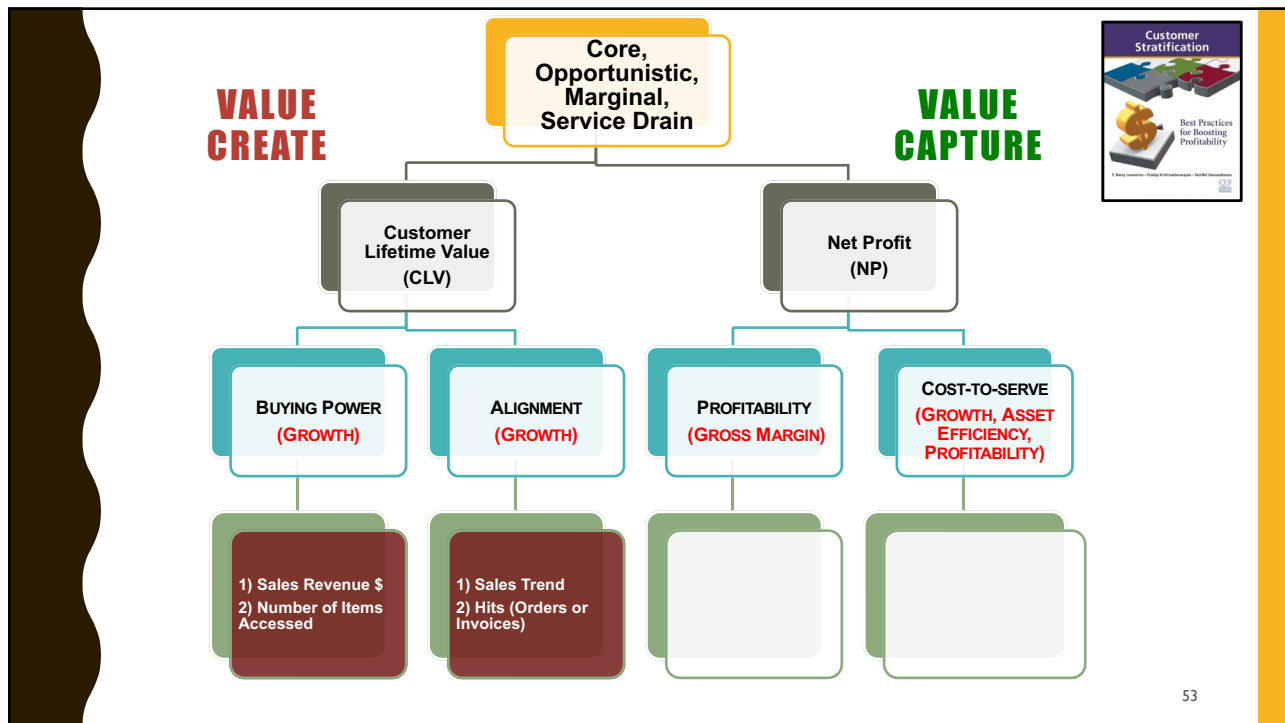
Buying Power	Alignment	Profitability	Cost-to-Serve
---------------------	------------------	---------------	---------------

Level of Importance (100%)			
25%	25%	25%	25%

Customer Lifetime Value (CLV) METRICS					SCORE					CLV Rank
Sales \$ 2016	Sales \$ 2017	#Items	#Invoices	Sales Trend	Sales \$ 2017	#Items	#Invoices	Sales Trend	Final	
\$ 191,751	\$ 598,121	132	28	212%	40	40	30	40	37.5	A
\$ 206,408	\$ 529,098	298	18	156%	40	40	20	40	35	A
\$ 11,282	\$ 27,738	3	2	146%	30	10	10	40	22.5	C
\$ 562	\$ 26,588	12	2	4631%	30	10	10	40	22.5	C

SCORE	RULES			
40	>\$36K	>75	>36	> 50%
30	\$24K - \$36K	50-75	36	25%-50%
20	\$12K - \$24K	25-50	24	0-25%
10	\$12K	25	12	<0%

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Buying Power	Alignment	Profitability	Cost-to-Serve
--------------	-----------	----------------------	---------------

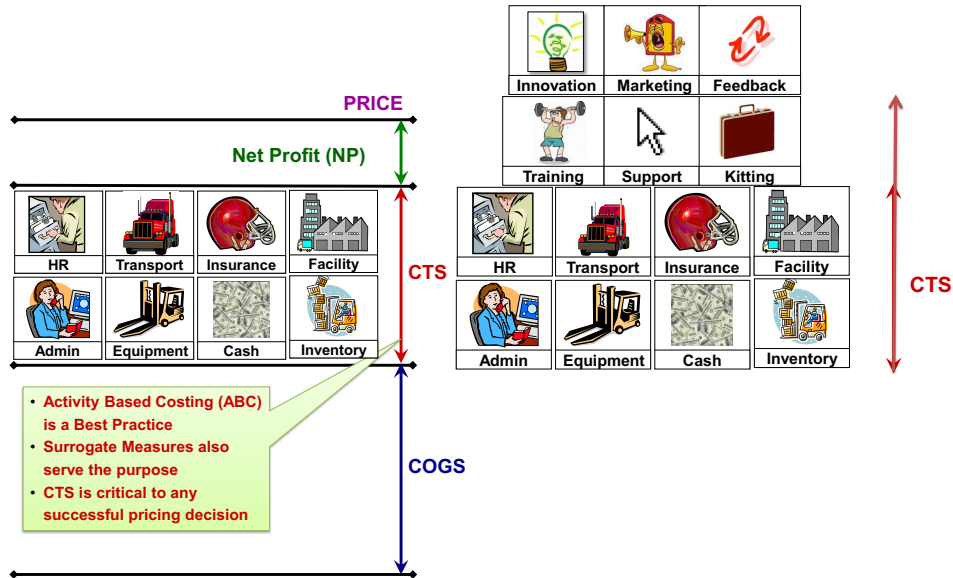
List TOP 2 Metrics that represent Customer PROFITABILITY?

1. **Margin \$ in the Recent 12 Months**

2. **Deviation of GM% from Goal**

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DISTRIBUTORS ROLE IN CTS EXPANSION & INNOVATION



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COST-TO-SERVE (CTS) EXERCISE

DETERMINING CRITICAL FACTORS
(WHAT ARE THE CTS FACTORS THAT ARE IMPORTANT TO YOU WHILE SERVING YOUR CUSTOMERS?)

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Buying Power

Alignment

Profitability

Cost-to-Serve

List TOP 2 Metrics in Each Category that represent Customer COST-TO-SERVE?

1. SALES _____

2. OPERATIONS Avg. Order or Invoice Size (\$)

3. FINANCE Days to Pay

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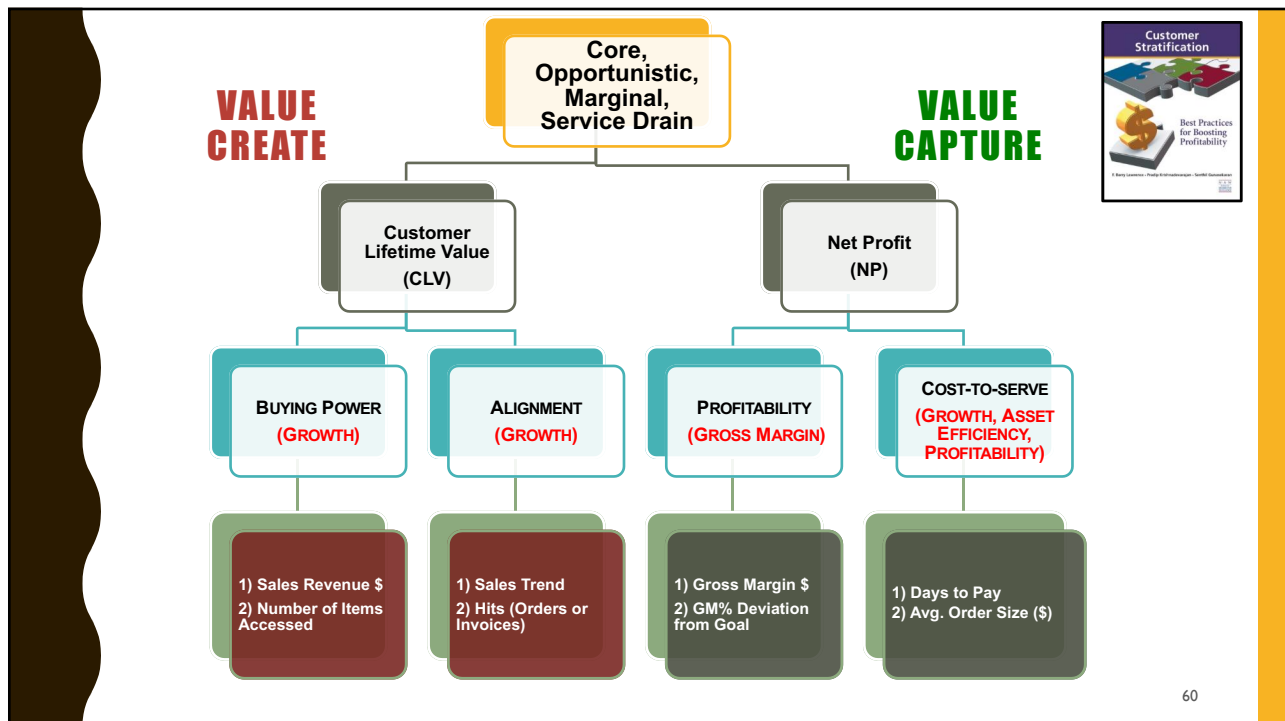
No	Category	Factor	Unit of Measure	Available	Quantifiable	Reliable	Common Factor
1	Finance	Average days to pay	Days				
2		Accounts receivables	Dollars				
3		Freight/transportation costs by customer	Dollars				
4		Customer specific inventory requirement	Dollars				
5	Operations	Average order size	Dollars				
6		Average line size	Dollars				
7		Average number of line items	Number				
8		C & D items accessed	Percentage				
9		Sales \$ from C & D items	Percentage				
10		Returns (RMA - Return Material Authorization)	Number				
11		Returns to sales ratio	Percentage				
12		Quote conversion ratio	Percentage				
13		Same day deliveries required	Percentage				
14		Online or self serve orders	Percentage				
15	Will call orders	Percentage					
16	Special product packaging requirements	Percentage					
17	Order cancellations	Number					
18	Errors on orders	Number					
19	Sales	Number of sales calls	Number				
20		Time spent with customer	Minutes/Hours				
21		Sales expenses by customer	Dollars				

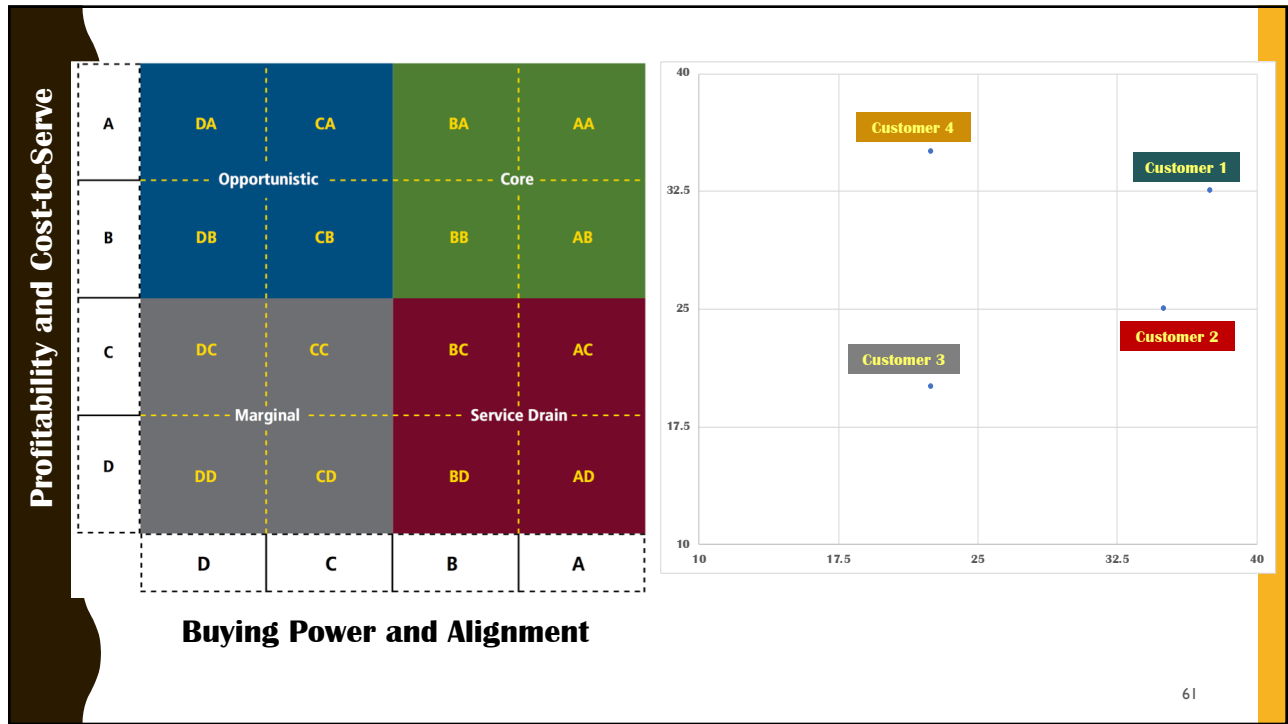
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Buying Power		Alignment			Profitability				Cost-to-Serve	
18.00%					Level of Importance (100%)					
					25%	25%	25%	25%		
Net Profit (CLV) METRICS					SCORE					NP Rank
GM % 2017	GM \$ 2017	Dev From Goal	Avg\$ / Invoice	Days to Pay	GM \$ 2017	Dev From Goal	Avg\$ / Invoice	Days to Pay	Final	
7.3%	\$43,892	-1066	\$ 21,361	29	40	10	40	40	32.5	B
10.3%	\$54,516	-770	\$ 29,394	72	40	10	40	10	25	C
4.1%	\$ 1,150	-1385	\$ 13,869	53	10	10	40	20	20	C
25.6%	\$ 6,815	763	\$ 13,294	30	30	40	40	30	35	A

SCORE	RULES			
40	>\$9K	>200	>\$1.5K	30
30	\$6K-\$9K	100-200	\$1K-\$1.5K	30-45
20	\$3K-\$6K	0-100	\$750-\$1K	45-60
10	\$3K	<0	\$750	>60

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REAL-WORLD EXAMPLE BUILDING MATERIAL DISTRIBUTOR

Platinum	Gold	Silver
<ul style="list-style-type: none"> • Own Trucks • Outside & Inside • Return Policy • Next Day Deliveries 	<ul style="list-style-type: none"> • Own Trucks – 50% • Outside • Return Policy • Next Day (Limited) 	<ul style="list-style-type: none"> • 3rd Party Trucks • Inside Sales Primary • Return Fee • Next Day (When Available)

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HOW OTHER DISTRIBUTORS PERFORMED?

Customer Stratification Implementation

Industrial	\$ 750 MM				2.9% (Projected)	↓
HVAC	\$ 500 MM				6.8%	↓
Electronics	\$ 400 MM				1.2%	↓
Fluid Power Products	\$ 190 MM				3.1%	↓
Electrical	\$ 175 MM				2.7% (Projected)	↓
Outdoor Power Equipment	\$ 75 MM				1.5%	↓
Container	\$ 65 MM				3.4%	↓
Metals and Building Materials	\$ 50 MM	Implementation in progress and pilot location results range from 2 - 4% gross margin improvement.				
Building Materials	\$ 80 MM					
Hardware	\$ 75 MM					
Paper	\$ 100 MM					
HVAC	\$ 80 MM					
Building Materials	\$ 1 Billion					
Industrial Automation	\$ 145 MM					
Building Materials	\$ 120 MM					
Building Materials	\$ 150 MM					
Propane Equipment	\$ 40 MM					
Gases and Welding	\$ 100 MM					

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CUSTOMER STRATIFICATION DASHBOARD

INPUT SELECTION

Market >>	CHICAGO
Customer >>	BOND FABRICATING & METAL PRODUCTION

CUSTOMER ATTRIBUTES

Sales Person ID	SID 007	Transportation Segment
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CONTROL LEVERS

VALUE CREATE	Weight	Buying Power		Values	Buying Power Rank		A
		60%	Sales Revenue \$		A	A	
50%	40%	# of Unique SKUs Accessed		55	A	A	A
50%	Loyalty		Values		Loyalty Rank		
	30%	Revenue Trend		79.6%	A	A	
	40%	Hits (# of Invoices)		66	A	A	A
	30%	# of Months with Orders		12	A	A	
CORE							
VALUE CAPTURE	Weight	Profitability		Values	Profitability Rank		B
		40%	Gross Margin \$		\$ 61,343	A	
	30%	Gross Margin %		19.4%	D	D	
	30%	Trend of Gross Margin %		-16.4%	D	D	
50%	Cost-to-Serve (CTS)		Values		CTS Rank		
	50%	Average Invoice Size		\$ 4,795	B	B	
	50%	Days to Pay		19	B	B	

STRATEGY

Account PENETRATION. Perform Gap Analysis. Will additional services convert them to service drain?

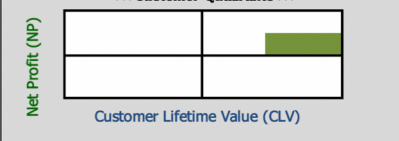
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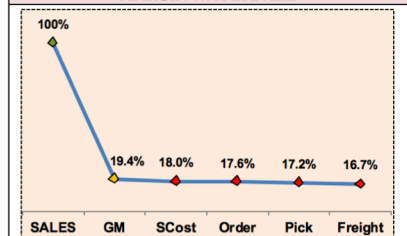
DATA for 2016

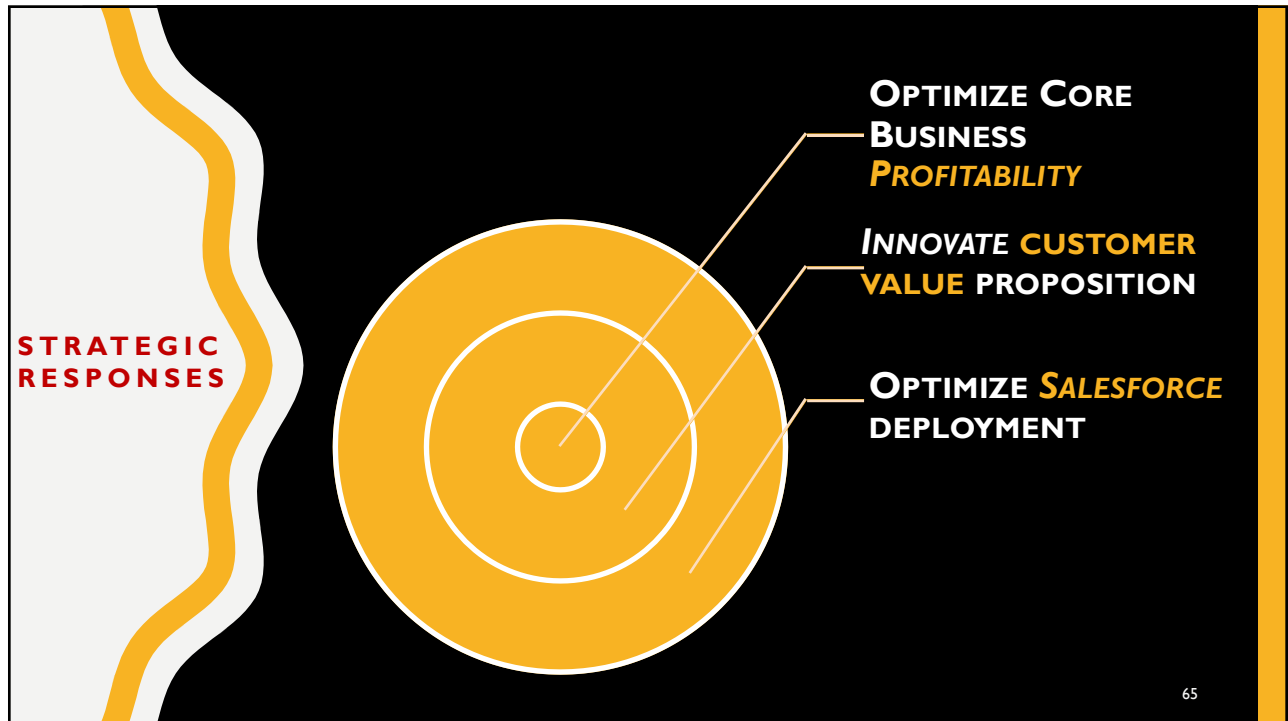
\$ 176,181	\$ 40,843	23.2%
Sales \$	GMS	GM%

Customer Quadrants



MARGIN WATERFALL



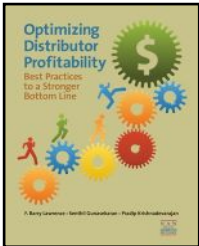


*The greatest danger in times of turbulence is not the turbulence – **it is to act with yesterday's logic.***

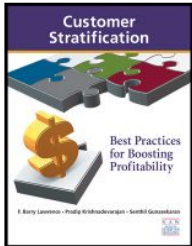
WHAT'S YOUR STRATEGIC RESPONSE?

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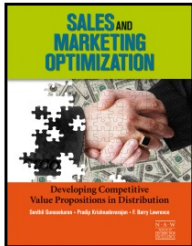
ADDITIONAL RESOURCES



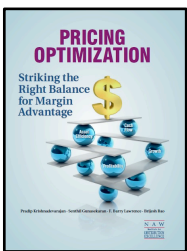
<http://naw.org/odp>



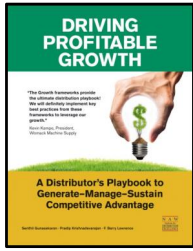
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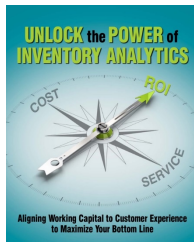
<http://naw.org/smo>



<http://naw.org/po>



<http://naw.org/growth>



<http://naw.org/inventory>

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