Account Profit Architecture

Six Disciplines For Maximizing Account Level Profitability

ALLIANCE CONSULTING GROUP

We make strategy work.

Executive Summary (1)

- Profitable growth in today's market is difficult at best--major product launches can have uncertain paybacks, pursuing new customers can be costly and acquisitions can be risky
- As a result many companies put an increased emphasis on growing existing accounts as a means to propel their business
- Our experience shows that companies that are the most successful at profitably growing existing accounts have developed strategies to overcome three key growth challenges:
  1. *Not All Customers Are Created Equal*: In today's market who you target is critical and it is often counterintuitive which of your customers are most attractive to pursue
  2. *More Is Not Always Better*: The natural tendency to broaden your product line, while logical, often carries with it hidden costs for both you and your customer
  3. *Resources Follow Path of Least Resistance*: The cost to serve a customer often times becomes misaligned to account value distorting account profitability

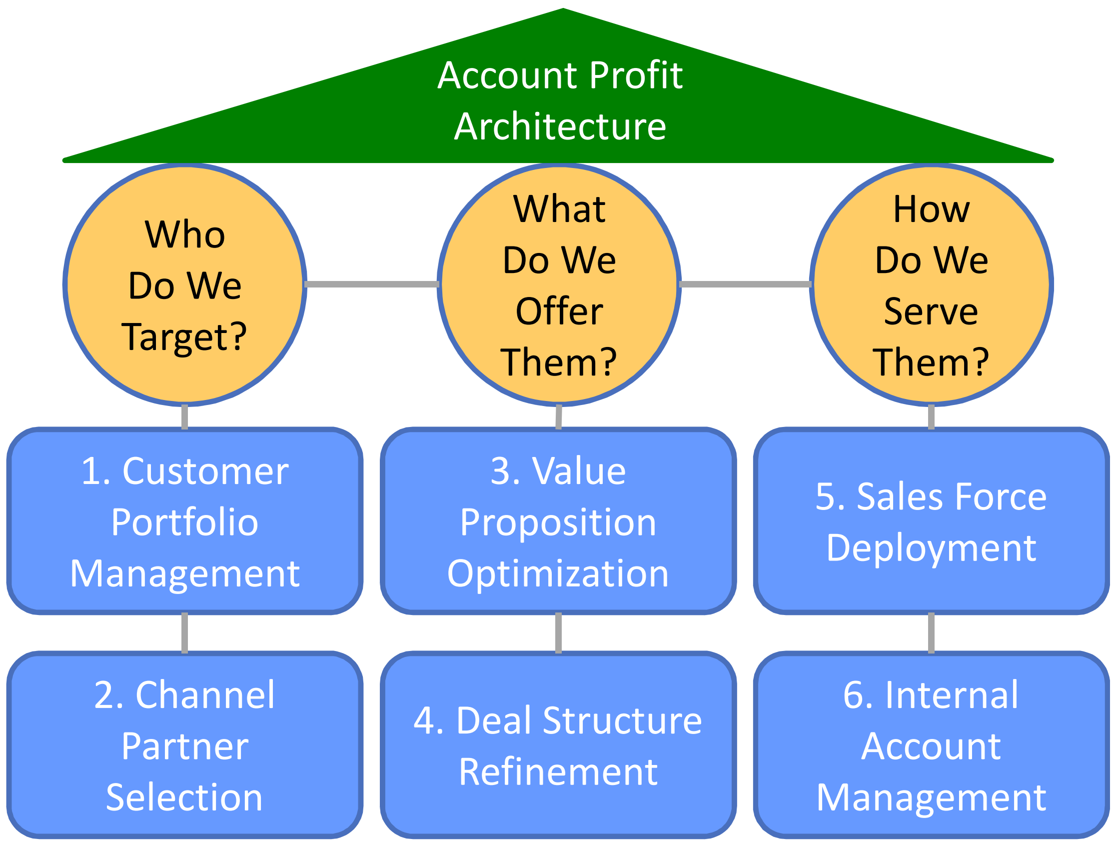
Executive Summary (2)

- These barriers to growth embody themselves in a multitude of ways including
  - The company targets the wrong type of customer
  - Improper channel partner selection destroys value
  - The value proposition is not properly aligned to target customer segments
  - Complex deal structures lead to profit leakage
  - The company over or under invests in an account
  - Inefficient internal account management increases overhead burden
  - The company fails to adapt its account strategy over time

- Alliance has identified six disciplines which when mastered can assist companies in overcoming these challenges to accelerating profitable account growth—what we call the Account Profit Architecture

Framework For Driving Profitable Account Growth
Six Disciplines Of The Account Profit Architecture

- The Account Profit Architecture provides a framework to overcome obstacles to profitable account growth and revolves around three fundamental questions and six disciplines



Discipline 1: Account Portfolio Management

Managing Your Portfolio Of Accounts

- **Nurturing a healthy, growing portfolio of customers is a critical success factor for any organization seeking profitable growth**

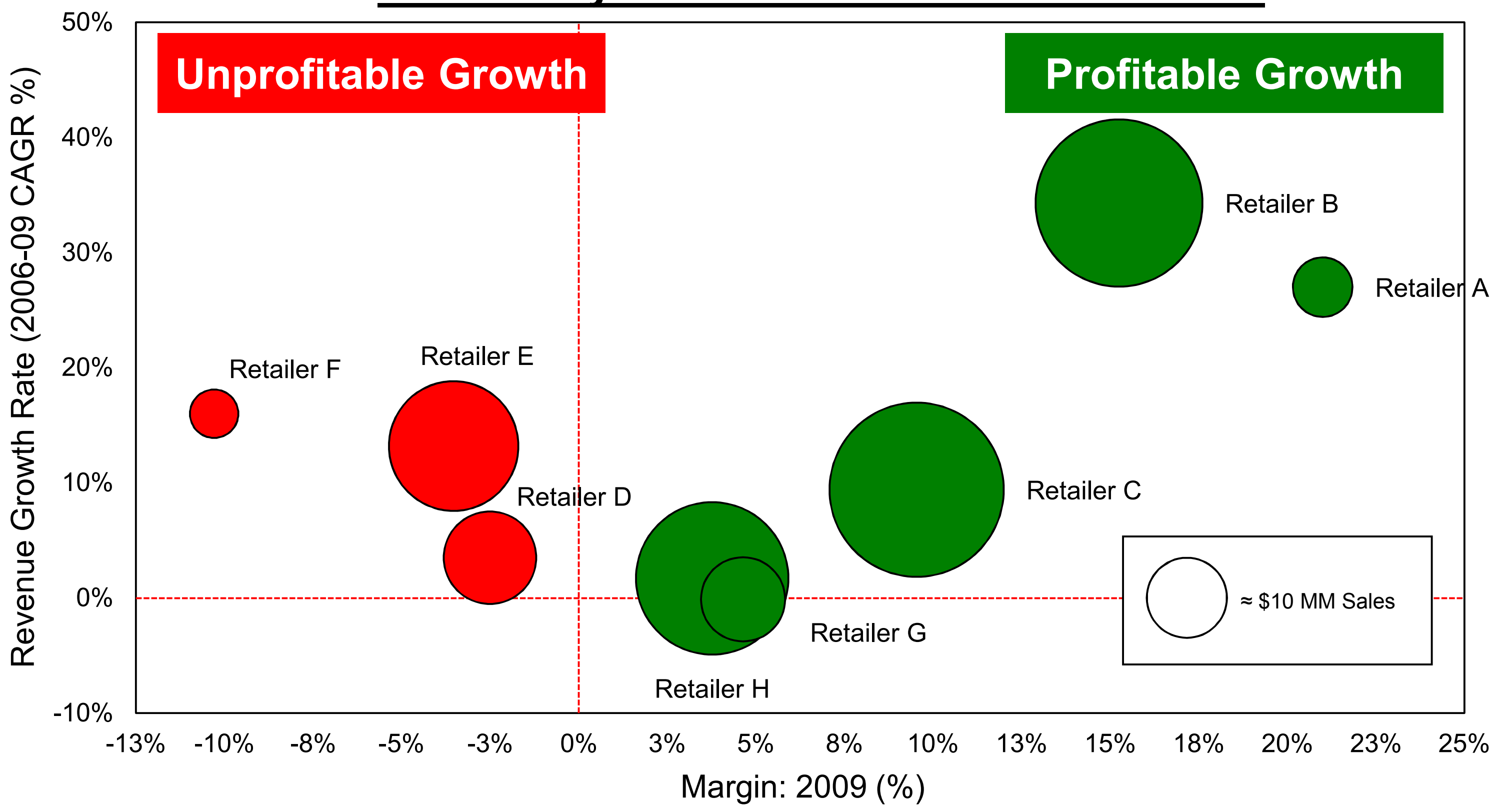
- **The issue is that not all accounts are of equal attractiveness and a few bad apples can negatively impact profitability**
  - Aspiring to “hit their numbers” selling organizations often pursue less than desirable accounts pulling down the average account profit mix
  - “Problem” accounts often distract resources from customers with greater profit potential
  - Account dynamics such as acquisition costs, retention levels and churn often not fully accounted for nor actively managed
  - Few companies actively rationalize their account base and fire—or at least restructure deals with—their least profitable accounts

- **Our experience reveals three keys to success in managing your account portfolio**
  - Develop a thorough understanding of account profit dynamics
  - Institutionalize a disciplined approach to account selection, retention and disposal
  - Prioritize and focus resources on high potential accounts

Case Study: Sporting Goods Manufacturer
Profitability Levels Varied Among Retailers

- Leading sporting goods manufacturer was experiencing declining margins
- Analysis revealed varying levels of account profitability dragging down overall margins

Profitability and Growth Over Time: 2006-09



Case Study: Sporting Goods Manufacturer
Disciplined Approach To Portfolio Management Improved Performance

- Analyzed existing and potential customers to determine proper account strategy
- Refined criteria for new account selection
- Institutionalized process and integrated into annual strategic planning activity
- Results included
  - Improved profit performance of existing accounts
  - Elimination or restructuring of underperforming accounts
  - Increased quality of new accounts

	Retailer	Account Quality Index	Current Client Investment Level	Account Strategy
Existing	Retailer A	6	6	Status Quo
	Retailer B	9	5	Invest
	Retailer C	8	6	Invest
	Retailer D	1	4	Fire
	Retailer E	3	4	Restructure
Target	Retailer M	7	N/A	Pursue
	Retailer N	2	N/A	Pass

Discipline 2: Channel Partner Selection
Refining Distributor Selection and Channel Management

- **Aligning with the correct channel partners is critical to the success of any sales organization**
  - Distributors provide critical access to markets and appropriate coverage of end customers
  - Play strategic roles in trade areas ranging from lead partner to specialist
  - Provide critical functions such as stocking and credit

- **Challenge is that goals and incentives are not always aligned impacting customer profitability**
  - Often times need exists to manage channel conflict
  - Different motivations result in potential conflict over strategic role of distributor
  - Delicate balance must be struck to offer terms and conditions that are economically attractive to all parties

- **We recommend a five step process for optimal distributor selection**

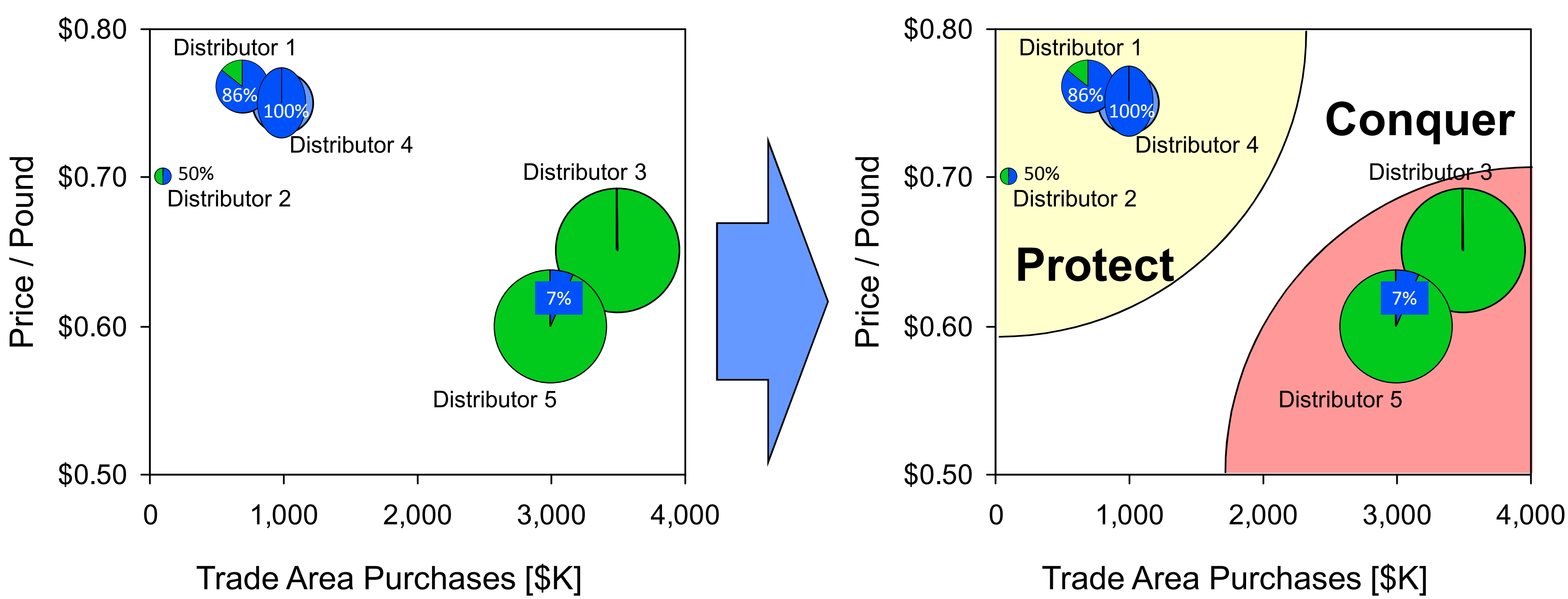
Discipline 2: Channel Partner Selection

Optimizing Distribution: 5 Topics

A. Target Identification	B. Coverage Strategy	C. Partner Selection	D. Strategic Terms	E. Channel and Account Management
▪ Develop the "ideal" target list of new distributors	▪ Decide on channel strategy and competitive conflict	▪ Select specific partners	▪ Define the terms of the relationship	▪ Foster constructive competition
1. Define trade areas 2. Identify distributors who cover trade areas 3. Determine market focus of available distributors 4. Develop target list that maximizes coverage across trade areas and market segments	1. Define the specific areas of market segment overlap between (potentially) competing distributors 2. Explore the likely nature of competition and strategies of the distributors 3. Assess impact on existing distributors	1. Determine strength of individual target distributors 2. Determine attractiveness 3. Examine fit with the "trade-area team"	1. Determine strategic role expected from specific distributor (lead partner, market participant, specialist) 2. Select terms for each role 3. Execute specific terms with individual distributors 4. Define direct-to-contractor policies	1. Focus reps on pursuing selected partners from target list 2. Sign up desired distributors with appropriate terms 3. Monitor trade area competitive interaction 4. Use account plans, pricing policies, and TM calls to encourage constructive competition

Case Study: Building Materials Manufacturer
Closed Coverage Gap While Minimizing Channel Conflict

- Analysis revealed client had strengthened channel position in small, high service, high price point distribution
- Coverage gap identified with high volume, commodity oriented distributors
- Client differentiated offering resulting in protection of high margin distributors and penetration of high volume distributors



Circle Size Indicates Trade Area Purchases

Discipline 3: Value Proposition Optimization

Aligning Portfolio To Customer Needs

- **Product assortment and availability are key differentiators for manufacturers**
  - Leading manufacturers place significant resources against new product development as a key growth engine
  - Ensuring broad distribution and availability of products is a hallmark of successful manufacturers

- **The challenge is balancing a growing portfolio with the complexities and costs associated in managing it**
  - Significant time and energy is put into developing new products often times without a thorough understanding of customer preferences
  - Manufacturers aggressively pursue new product development, but less emphasis is put on culling outdated products for fear of losing sales
  - Product proliferation strains inventory management and distribution networks increasing costs to both manufacturers and their customers

- **The key to success is to**
  - Develop an intimate knowledge of customer needs, segment characteristics and trends
  - Align your portfolio of goods and services to meet prioritized needs
  - Place an equal emphasis on pruning your product portfolio as new product development

Case Study: Branded Consumer Goods Manufacturer
Customer Needs Domain Identifies Gaps

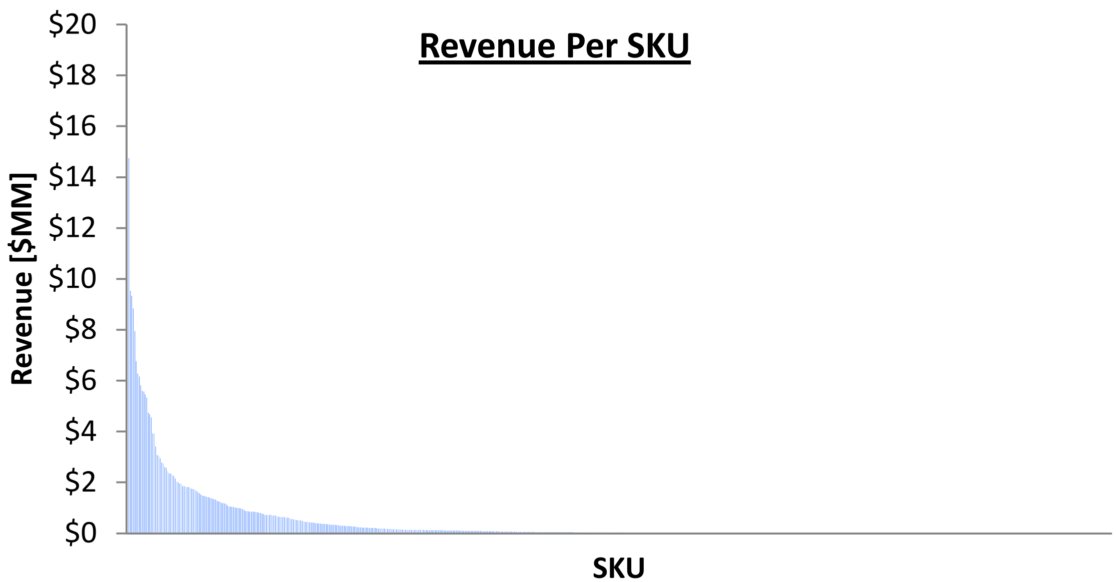
- Analysis revealed gaps in customer satisfaction and prioritized product needs

Product Purchase Driver Attributes	Customer Segment A			Customer Segment B			Customer Segment C			Customer Segment D			Customer Segment E			Customer Segment F		
	Importance	Satisfaction	Gap	Importance	Satisfaction	Gap	Importance	Satisfaction	Gap	Importance	Satisfaction	Gap	Importance	Satisfaction	Gap	Importance	Satisfaction	Gap
Availability Through My Distributor	78%	76%	-2%	93%	93%	0%	88%	79%	-9%	85%	77%	-8%	85%	77%	-8%	88%	80%	-8%
Consumer Brand Recognition	43%	67%	24%	82%	86%	4%	72%	67%	-5%	70%	82%	12%	70%	82%	12%	86%	86%	0%
Ease of Use	90%	89%	-1%	95%	96%	1%	82%	91%	9%	80%	87%	7%	80%	87%	7%	93%	94%	1%
Availability of Marketing Materials	18%	36%	18%	57%	77%	20%	42%	51%	9%	65%	63%	-2%	65%	63%	-2%	74%	69%	-5%
Purchase Price	88%	59%	-29%	88%	64%	-24%	86%	60%	-26%	82%	57%	-25%	82%	57%	-25%	89%	68%	-21%
Product Quality	92%	66%	-26%	97%	80%	-17%	95%	72%	-23%	92%	82%	-10%	92%	82%	-10%	99%	87%	-12%
Service / Support From supplier	81%	66%	-15%	93%	84%	-9%	81%	67%	-14%	88%	65%	-23%	88%	65%	-23%	93%	82%	-11%
Product Variety	50%	56%	6%	46%	77%	31%	28%	44%	16%	58%	80%	22%	58%	80%	22%	60%	73%	13%

*Note: Importance = % Of Customers Rating Attributes As Extremely Important/Very Important (Top 2 Box); Satisfaction = % Of Customers Rating Satisfaction As Extremely Satisfied/Very Satisfied (Top 2 Box); Gap = Difference Between Importance And Satisfaction

Case Study: Branded Consumer Goods Manufacturer
Customer Needs Domain Identifies Gaps

- Further analysis revealed 12% of SKUs comprised 80% of client revenue
- Worked with client to
  - Re-prioritize new product development efforts to be in line with customer segment needs and preferences
  - Rationalize existing SKU set to eliminate low velocity, low margin products
- Results included significant portfolio management cost reduction and lift in average account volume and margin



Discipline 4: Deal Structure Refinement

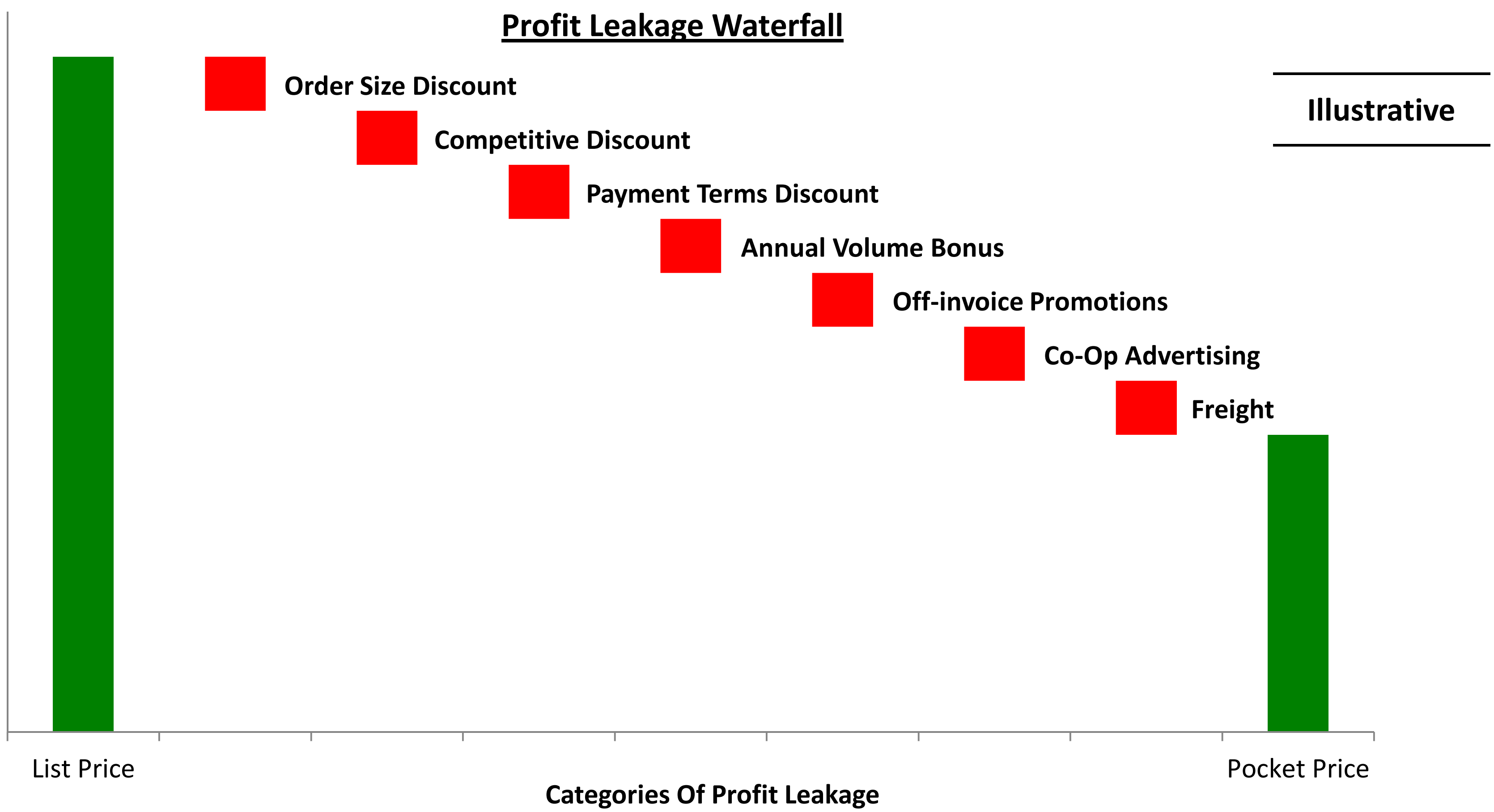
Optimize Deal Structure To Minimize Profit Leakage

- **Pricing has the greatest impact on and is the most effective tool for managing account profitability**

- **While understanding the importance, many companies fail to fully understand pocket price and the resulting impact on account level profitability**
  - Deal structure components can lead to profit leakage
  - Hidden costs can dramatically reduce pocket price and erode margins
  - Delicate balance must be struck to offer terms and conditions that are economically attractive to all parties

- **We have found that optimizing deal structure across the value chain is critical to success. The essence of the Deal Structure Refinement discipline is**
  - Identify all components of deal structure and analyze sources of profit leakage
  - Assess economic impact of deal components from manufacturer, distributor and customer perspectives
  - Refine deal components to create incremental value for all players

Profit Leakage Waterfall Identifies All Deal Components and Quantifies Profit Leakage Areas



Case Study: Food and Beverage Manufacturer
Aligning Shipping Model To Industry Standard

- Analysis revealed that client profitability was negatively impacted by current freight model
- Customer profitability also negatively impacted due to increased inventory management cost
- Client aligned to industry freight model and adjusted incentives resulting in a $3.3M annual client freight cost savings

	Client Model	Cost Drivers	Industry Model
Min Order Size	None		Yes, based on revenue, weight and/or size
Max Order Frequency	None		Yes, typically no more than once per week
Shipping Charge	None		Bracketed pricing charges customers for LTL orders
	Smaller, more frequent orders ⇦	Order Processing — $75/order	⇨ Fewer, larger orders
	Less efficient picking ⇦	Pick & Pack — $1/pick	⇨ More efficient picking
	Smaller percentage of mix of orders = TL ⇦	Shipping — UPS = $0.87/lb — LTL = $0.09/lb — TL = $0.04/lb	⇨ Greater percentage of mix of orders = TL

Discipline 5: Sales Force Deployment
Aligning Cost To Serve With Account Profit Potential

- **Customer profitability is strongly correlated to the cost to serve an account**
  - A major driver of cost to serve is both the quantity and quality of sales resources assigned to the account

- **The challenge is balancing resource level with account potential**
  - Over invest in sales resources leads to diminishing returns
  - Under investment leads to reduced customer satisfaction and lost sales

- **The key to success and the essence of Discipline 5 is to align the cost to serve with account profit potential. To achieve this it is critical to consider two strategic questions**
  - Where do we deploy sales resources?
  - What level of sales resource is most appropriate?

- **The following client example illustrates a methodology for exploring these topics**

Case Study: Consumer Goods Manufacturer

Evaluate Market Attractiveness

- Analysis reveals areas of high market potential and assesses client's ability to serve

Market Demand

- ✓ Population
- ✓ Unemployment Levels
- ✓ Commercial Vacancy Rates
- ✓ Client Sales

Distributor Coverage

- ✓ Location
- ✓ Footprint
- ✓ Client Share of Wallet

Client Sales Force Coverage

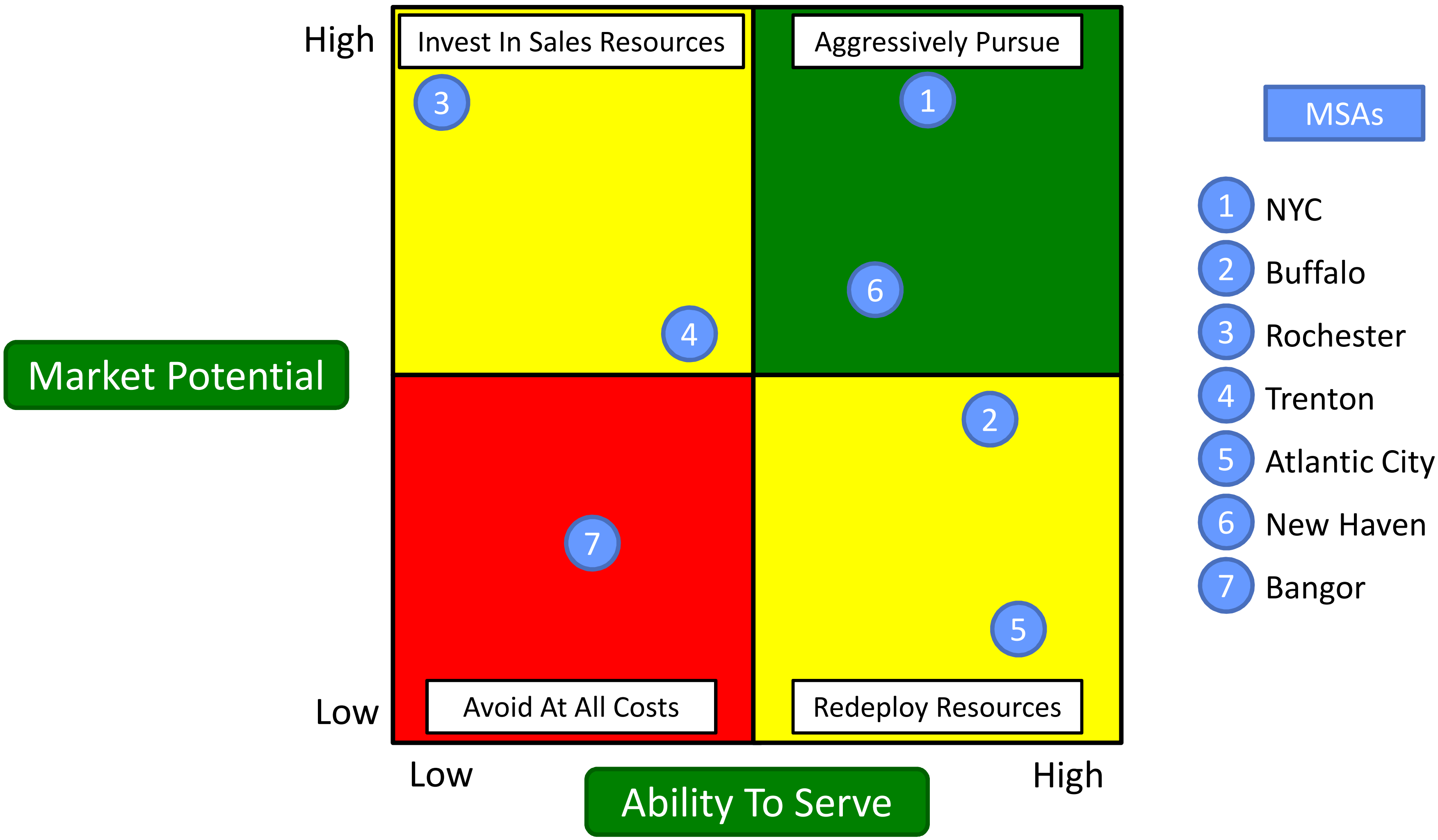
- ✓ Territory
- ✓ MSAs Covered
- ✓ Customers Covered

Market Potential

Ability To Serve

Case Study: Consumer Goods Manufacturer

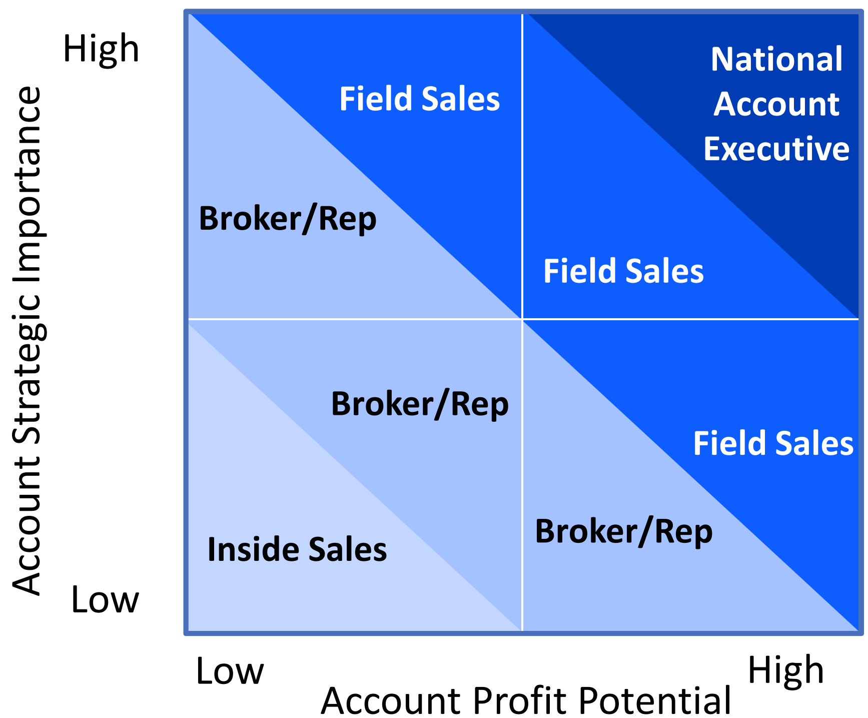
Sales Force Deployment Strategy Aligned To Market Attractiveness



Case Study: Consumer Goods Manufacturer
Sales Resource Level Appropriate To Expected Account Value

- For each existing and prospective account preferred sales force pursuit resource was determined by analyzing account profit potential and strategic importance

Sales Resource Allocation



- Result was more efficiently deployed sales force with a lower average customer cost to serve

Discipline 6: Internal Account Management
Tailor Service Delivery Level To Account Profit Potential

- **Internal account management (e.g., order processing, customer support, A/R, returns management) is a significant driver of cost to serve and account profitability**
- **The drivers of this overhead burden typically fall into one or more of three categories**
  - **Process**: bottleneck processes hinder efficient account management
  - **Organization Structure**: structure and capability gaps lead to inefficient execution
  - **Systems**: outdated, non-integrated systems increase manual processing costs
- **Often times there is no distinction in service level and support among accounts**
- **The focus of the 6th Discipline is to holistically address internal account management and tailor the service delivery level to the account profit potential**
  - Segment customers based on profit potential and strategic importance
  - Re-engineering processes and align to customer segments
  - Re-align organization and build capabilities to energize processes
  - Upgrade systems to meet internal needs and facilitate efficient client management

Case Study: Leading Business Services Outsourcer

Improving Profitability Thru Enhanced Account Service

Client Situation	▪ Leading business services outsourcer was seeking ways to accelerate profitable growth in the face of an increasingly competitive market
The Challenge	▪ Optimize customer support and account management model to improve account-level profitability

Case Study: Leading Business Services Outsourcer
Improving Profitability Thru Enhanced Account Service

Actions Taken and Results	
	▪ Segmented customers into Silver/Gold/Platinum tiers based on strategic account value ▪ Tailored account management and customer support model based on account tier • Platinum accounts received high touch “white glove” treatment • Silver accounts received streamlined, efficient servicing ▪ Client resources were directed to highest value accounts increasing customer satisfaction and ultimately contributing to growth of client profitability

Summary

Six Disciplines For Maximizing Account Level Profitability

- Driving profitable growth by maximizing account level profitability is the hallmark of any successful organization
- There are a variety of reasons why companies fail to achieve this ranging from targeting the wrong customers to complex deal structures to improper sales force deployments
- Mastering the six disciplines of the Account Profit Architecture enables you to overcome these obstacles and accelerate profitable growth