BLACKSMITH APPLICATIONS

Trade Management Case Study eBook

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Blacksmith Applications is committed to delivering total trade spend transparency to our customers. In service of this mission, we go beyond the creation and implementation of strategic software solutions to deliver tools that enable teams to challenge their current ways of thinking.

This Trade Management Case Study eBook contains six exercises that will help your team go beyond business-as-usual to generate new ways of evaluating and impacting the business. The case studies have been designed to challenge teams, but are also useful as a solo exercise.

Those who may benefit from the Trade Management Case Study eBook include individuals in the following functions:

1. Finance
2. Sales
3. Marketing
4. Sales Operations
5. General Management
6. Anyone who has a stakeholder role in trade promotion management

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START YOUR ENGINES:

Each case study is accompanied by discussion questions. Work individually or in groups to brainstorm solutions to these challenges.

Consider the following:

1. Stop telling yourself: *that's the way we've always done things*
2. Consider possibilities beyond what you can execute today
3. Think through how you might do things if you were in control of change

"Can you believe those people? They act like their only concern is stuffing more cases into the distributor warehouse with no consideration for how much money it takes to make that happen. Don't they realize that we are all paid by the same company and that the company needs to turn a profit to be successful? Where did this all go wrong?"

As the Senior Director of Finance for Big Boy Foods, Adam Lee was accustomed to applying logic and rational thought to problem-solving. Having just spent the better part of his day on a trade and pricing review with the division leadership team, he was clearly frustrated by his perception that the organization was plagued by an absence of accountability for controlling discounts and allowances.

Across the table from him, Jenny Crone wore a deep frown and nodded sadly in agreement. "No, Adam, I cannot understand it. In the Marketing area, we do have accountability for plant costs, production estimates, meeting margin goals with our pricing strategy and insuring our bottom line is under control. The sales team pushes all of us to dig as deep as we can to fund their customer initiatives and could care less if we lose money doing it. How did that new guy, Sean, say it? I think he said 'If you want to play, you have to pay. If we don't pay, the other guy will and then we'll lose the business'. He made it sound like all they do is offer discounts to match the lowest competitor. This is no way to run the business."

Clearly agitated, Adam noted, "And did you hear them moaning about our trade systems? They think it's just meaningless key-punching that amounts to nothing. How can we possibly run the business unless they play a role in loading the customers, dates and prices for their deals? Of course they have admin work! We all do! It's the nature of the beast. We invested all of those resources to implement all of those tools to help them make better decisions and yet they just hit us up like a corner-store ATM. I don't get it. We have hundreds of reports. We have all of our deals loaded in one place for analysis. We show them the profitability of every request so that they'll know where the line is between good and bad. What are we missing, Jenny?"

Across town, Sean Smith was equally riled up. Having recently joined Big Boy as the Director of Field Sales, he was wondering if that decision was a good one. Speaking to the VP of Sales and his new boss, Elizabeth Hayes, he made his case point by point.

"I'm not sure your culture is a good fit for me, Liz. You hired me to come here and drive the business. Sell stuff. That's what you told me. Just join our team and sell, sell, sell. Well, having spent only 3 weeks with the team, all I see us doing is sitting in front of a computer typing. These wonderful systems you told me about? They are a time suck. We have no tools that help us sell. We are spending too much time in front of a keyboard every week. I made some notes on my last 'time in the field' visit. Here's what we spend all of our time doing:

1. We dig up an opportunity to sell more cases and learn that we need a discount to meet competition.
2. We sit in front of the computer and type in our request. Dates, customer, items, rates and volumes.
3. The system then shows us the economics of that request. The only thing we care about is the fact that we cannot approve it due to some magical threshold that we do not understand and cannot influence. So, the request routes to someone else to decide whether or not we will have a chance to sell anything.
4. If we are lucky enough to have the request approved, we then sit back down at the computer to send out notifications to our new customer [of course, we win almost all the time when we get the discounts we are asking for].
5. Around 6 weeks later, someone from Customer Accounting emails us to ask us to help resolve a $1,000 deduction that the system thinks should have been $800. This is now more computer time and less selling time.
6. To complete the cycle, our new customer is so enamored with our awesome offering that they would like us to add more products to their contract. This launches a similar cycle, relegating our team to more desk time to peck away on the keyboard.

And you know what? If we received any value at all from that effort, I would not be so frustrated. But, all of that effort provides nothing to help on the next customer exchange we have. We show up, learn about the deal it will take to win the business and it starts all over again. Please, tell me that it wasn't a mistake to come here and leave my secure, comfortable and keyboard-free life back at Ordinary Brands."

Liz pondered all of Smith's points and struggled to find words to describe the value of becoming more analytical. Sighing heavily, she did her best to bring her new recruit back into the fold. "OK, you make some good points, Sean. I'm sure there is something we can do to streamline the process and ease the burden. I share your concerns and will work to improve the administrative tasks for your team.

For me, though, there is an even bigger issue that we need to address. From our end of things, we do need to make better decisions when we set pricing and spend the company's money. From my perspective, the biggest issue is that we do not have any guidelines or analysis that helps us decide what is "good". We need to know how much we ***should*** spend. I receive a lot of reports with many pages of data but I have no time to read through it all to figure out what the real story is.

The leadership team keeps preaching that better analysis will lead to better decisions and a healthier business. And that's where I'm lost. I do not know what sort of analysis someone could provide for us that will change the decisions we make. I've had a lot of meetings with the data warehouse team to ask for their help. We have the same discussion over and over. It's like Groundhog Day. I ask them to give me reports that tell me what I need to know to make better decisions. They ask me what data I want to see in the report. I tell them that I need to know what's important . I need to know what really matters…and we end up with nothing. You know what I think? I think we need insights. We need someone to analyze the data and summarize for us what is happening so that we are better informed."

Back at the Big Boy offices, Patrick Kelly, the long-time patron and unquestioned leader of the company, was also struggling with what had taken place that day. He saw clearly that the measurement and incentive plan was not aligned correctly to drive accountability for pricing and trade spending. He was a firm believer in empowerment with decision-making close to the customer and was perplexed that his sales leaders were so disconnected from an emphasis on profit.

At the same time, he had to agree that the current process was too heavy with administrative tasks for the resources he was paying to sell rather that type. And he was beginning to wonder if that huge investment in the data warehouse was just a big waste. The sales folks had a good point on that one. No one had time to comb through reports and data to identify trends and gain insights. Even if they did, he was struggling to see the correlation between analysis and results.

Recalling his conversation with John Williams from Fancy Foods during the recent Sysco "Top-to-Top" conference, Kelly decided to call in the experts. It was time to get the A-Team involved. There were five broad areas that Kelly was hoping to gain perspective on:

DISCUSSION QUESTIONS

1. Accountability: From an industry perspective of "Best Practices", what can be done to increase accountability for profitable trade deals and pricing discounts in the field sales organization?
2. Admin reductions: Assuming that Big Boy is typical of most manufacturers, what process changes have other organizations made to reduce the administrative burden of trade spending on the sales force?
3. Tools that add value: From an offensive perspective, what tools have other organizations provided to their sales team that have been received positively and have actually made an impact on results?
4. Execution and implementation: As a follow-up to that, what can Big Boy learn from others relative to implementing those tools and helping the sales team understand the value of putting them to use?
5. Analytics rather than "reports": Finally, as it relates to analytics and reporting, Duffy is perplexed over how to go about delivering analysis and insight to key decision-makers without requiring everyone to comb through pages of mind-numbing reports. Ideally, Duffy would like a 2-3 page weekly summary providing bullet points of "what we need to know" about what is happening with the business. What are the requirements and action steps to make that a reality?

John Black had survived many long and painful days in his 10 years as Director of National Accounts for Non-Commercial Business at Big Brands, Inc. Today felt like the bottom of the barrel. He could not understand how what had once been so wonderful had so quickly become such a painful experience. Black closed his eyes and dreamily recalled better days. No more than 6 months ago, he had been celebrated as the "Golden Boy" of the organization …

Imagine wavy lines and harps playing as the scene rolls back to six months prior. John is wrapping up his presentation to the Large Accounts Review Board ….

"So, in summary, this contract with Intergalactic Purchasing Agents [IPA] is a perfect opportunity for us to accomplish all of our strategic goals for the quarter and possibly the year. The agreement with IPA mirrors our successful and long-standing rebate and deviated price precedent with Aramark. Even better, the 80,000 cases are completely incremental. The headlines of the story are:

A. 80,000 cases incremental of both branded and private label items
B. Controlled through the IPA authorized distribution agreement with American Foodservice
C. We'll drive pull through opportunities for the field sales group to grow street business given the new slots and availability we'll drive through American – we won't even ask for the volume to allocate to our segment … it'll be our "gift"
D. Future opportunities to grow with IPA – their long range plan calls for extending into lodging, gaming and even commercial locations

In summary, this is a no-brainer. But, I have to warn you, our competitors have already put forth aggressive proposals and our brands will only take us so far. We need to strike while the iron is hot. I've been in the business more than 20 years … I don't want to overpromise here, but, I think this could be the next McDonald's. Let's not get timid now at the 11th hour when the world has been placed at our feet on a silver platter."

The Large Accounts group contemplated John's summary and each of them were secretly excited. Holding their breath, doodling on their notepads and waiting for someone to break the uncomfortable silence, no one wanted to voice a concern that could risk their reputations or sign them up for the "sales prevention" label. After quickly calculating the amount of their year-end bonus for hitting the division volume goals, they rose as one. Hoisting Black onto their shoulders, they marched through the office chanting "IPA! … IPA! … IPA! …

It was a good day, indeed. John rushed home to share the great news with his family and let them know that 'Daddy was a true American Hero today at the office'.

Imagine wavy lines and harps playing as the scene rolls back to the present day and John is pacing his office.

Leaning into the doorway of John's office was Kevin Beaman, the Big Brands Director of National Accounts for Commercial Business. The two comrades had formed a bond over the years as peers and often relied upon each other to commiserate on particularly bad days.

"Kev … Kev … it's bad this time. The entire business is out for blood and they have me lined up to take the fall. Finance believes we are close to $1 million unfavorable against the original proposition. Sandra [the President of the business] told everyone that this was 'the single most costly mistake in the history of our modern business'. I don't know how this happened. IPA was the Goose that was supposed to lay Golden Eggs for this year and next. Now it's my Grim Reaper."

"IPA?", Beaman asked. "Wasn't that one all locked down? I thought it was airtight and chock full of good news. We were talking about it the other day on the 1st tee at the Burger King franchisee convention in Hawaii. What did you miss?"

"Nothing. NOTHING. I went right down the usual checklist:

- Contract signed by the buyer – check.
- Authorized distribution – check.
- Competitive data and pricing – check.
- Incremental opportunity –check.
- New product volume – check.

IPA had committed to slotting all of our new flavors. It **was** lined up. Now, though, here's what everyone told me today –

1. The 80,000 cases? The estimate is that more than 75,000 of them were accounts already buying before the contract. They were just 'street accounts' and now we are counting them against this contract. That cost us more than $450,000 vs. the original proposal.
2. The pull-through opportunity never materialized. Field sales claims that AFS never did slot items at the request of IPA. They just kept shipping what they always shipped. Actually, their private label share has increased since we signed the contract. That stripped out more than $100,000 from our expectations.
3. The additional channel penetration? What a mess. Sysco and Reinhart are both angry and claiming that AFS is using the IPA deviated price up and down the street to convert business. So, we have to ramp up our Earned Income program on dehydrated soup and sauce to 20% to soothe the savage beast. That' another $200 Large.
4. The additional segment penetration? Well, IPA tried to recruit Darden and Starwood so they emailed them the IPA contract prices. Turns out that the deviated prices we offered IPA are 10% lower than the Darden and Starwood deals. So, now they both want to convert to that lower price. That's another $200,000, give or take.
5. The claim processing group is hitting my cost center for the cost of 3 FTE since we took on IPA. They're saying that they are inundated with ambiguous deductions that look like the same locations with volume claimed against our Bid Pricing programs are also showing up in the IPA backup. Just another log on the fire.

The meetings today were brutal. There was so much bad news I tuned out for the last hour. I spent all of my time updating my LinkedIn profile and sending out messages that I was looking for a new challenge. Where did I go wrong?"

After a moment to reflect, Beaman sat and got comfortable. "Wait, John, is this one of those 'GPO' deals I've hear about? When I was down at COEX, a bunch of reps were talking about them. It sounded to me like those organizations do offer services, but, they don't actually 'buy'. Is this one of those?"

"I don't know, man. All I know is that it looked, sounded and smelled like a Contract Feeder. You know what I mean? Regular old Foodservice Management Company. I thought it was the second coming of Aramark. I just wish someone would come up with a checklist and some criteria so that we could tell the difference between 'real' chain accounts and this new breed of joker that is killing me. That way, if I'm still sitting in the high-back chair, I'll know how to evaluate these inbound requests and determine what I'm up against."

Beaman thought for a moment and then lit up with an idea --- "Wait, when I was hanging out at The Lodge during NRA, I heard about this group. Some industry group that has been working on some standard definitions we can use. I'll check around and get you a contact. We'll get you out of this."

John sat back and thought about the chance to save his skin and have a better handle on these "GPOs" in the future. Maybe there *was* light at the end of the tunnel ...

DISCUSSION QUESTIONS

1. Develop a checklist to evaluate GPO opportunities at the point of contract creation
2. Outline the criteria for approving a GPO deal
3. Establish the KPIs for GPO performance measurement once transactions begin

Dave, Cheryl and Paul were exhausted and becoming irritated. 4 hours of brainstorming the action plan for the GPO initiative and they were still circling the same core challenges without much hope for resolution. The next meeting was only a precious few days away and they were empty. Paul was the most frustrated of the three, pacing the conference room and raising his voice as he reiterated the storyline they had become too familiar with. "Alright, so, we did a good job with the Standards doc, the Scorecard and the Standard Claim File. And I think we were successful in getting everyone to agree to move forward and take action. But, now we have a pretty big problem. We need to recommend some concrete and pragmatic actions for execution. We cannot go to the meeting empty-handed. And right now, we got nothing. Zilch."

After allowing for the obligatory moment of silence, Cheryl was next to speak, "Wait a minute … we have more than zilch. The group was enthusiastic about taking action and they were unanimous in getting back together to bring that plan to life. We have made great progress – we just need to focus and work it out, right, Dave?" Perking up from his chair at the table, Dave seized the moment to build on the positive approach by adding, "Cheryl is right. Not only do we have the reaction from the last meeting, but, there is the IFDA Letter – and the GS-1 and GLIN initiatives are still alive and kicking. These companies are not going to be able to accept the Status Quo and continue spending this much money without some action to control it. Their customers won't let them ignore it and write it off as 'Channel Trade Complexity'. They cannot continue forward without actions – volumes are flat to terrible and margins are compressed to historical lows. Paul, relax. They'll act. We just have to sort out a recommendation."

"GS-1 and GLIN? Come on! Really? Are we going to hang our hat on that coming to life? It's been more than 25 years since UPC was introduced and we're still only 65% compliant as an industry. GLIN relies upon critical mass for extensive database changes at each key distributor and operator. These are the same companies that struggle to provide accurate street address information and now we believe that they'll adopt a global standard for every <u>location</u>?", Paul was pacing again and beginning to get wound up. "Look, I'm not trying to be a Debbie Downer here. I agree with both of you on each of your points, but, I still feel like we are lacking teeth to these ideas. What Danny Mac pointed out at the last meeting is exactly right – any time there is a potential 'incremental case' at risk, most companies concede. And the industry knows that. They count on it.

Cheryl was ever the optimist. "Well, maybe we should point out what 'Teeth' the process should have in order to drive change. Right? We should give the group a set of potential actions that we think can make a difference and then let them work against tuning them." Dave joined in – "Look you guys, if we are not going to be able to propose something for a collective effort, then, our role here is done. We've defined the Standards for Conduct, the Scorecard and the Claim Summary. If everyone would prefer to execute on their own from here forward, then, let's give them some materials for education and some thoughts on how best to take another step or two."

After another moment of silence, Paul walked to the whiteboard and begins to draw two columns left to right. "OK, so, Cheryl is right. We need to define 'teeth'. Let's give them some ideas for mechanisms that resonate with the trading partners. And that means money. From my perspective, anything that is going to drive change must have an economic implication. All of these issues really boil down to a few root causes –

1. Manufacturers are receiving # claims for Admin Fees by # GPO's for the same locations. The infamous 'Quintuple Dip'. What is driving that is lack of transparency on membership and lack of discipline in execution with the distribution partners.

And then ...

2. Extendibility is the 800 Pound Gorilla. And extendibility all comes back to Deviated Billing. Once everyone began crossing the bridge, the floodgates were open. And we ended up with guys like Cheney Brothers claiming deviated against the foodbuy contract for 90% of their purchases.

If we can control, reduce or eliminate those streams of excess funds, this becomes a non-issue real fast. So, let's spend a few minutes brainstorming ideas that can attack those two areas." Several hours and many cups of coffee later, the three of them stepped back from the whiteboard to insure they had captured the best of their thoughts. They had broken their ideas into two main areas with key points aligned with each. Cheryl summed it up best -- "So, let's put this right into the Case that we write. Let's have them breakout and evaluate these! I think these are some Saber Tooth Tiger teeth. If anyone really did follow through on this type of approach, the industry would definitely be put on notice."

<u>How to Reduce Quintuple HQ Admin Events</u> [e.g., teeth in the process]

A. <u>Rate Segmentation</u>: Apply the scorecard approach to segment the customers and align the rebate rate with favorable outcomes. Deploy a "grid" approach that offers the standard Admin Fee to companies who demonstrate the desired process behaviors and attributes. Offer a greatly reduced rate [or zero] for those accounts that do not.

- Builds accountability to "earn" the Admin Fee for those GPOs who actually are GPOs
- Provides a framework to: [a] reward efforts to influence purchasing; [b] deliver transparency on membership; and [c] engage in controlling extendibility

B. <u>Choose</u>: Require that major Sub-Groups [e.g., McCormick & Schmick with foodbuy and Hard Rock with Entegra] choose a single discount mechanism; either the GPO offer or their own independent contract/program. Require that the sub-group provide written confirmation of that decision with that document communicated to both the distribution community and the GPO. Gain agreement that that manufacturer organization will aggressively refute duplicate claims and require that the sub-group provide a mechanism or resource to support that dispute process.

- Clarifies ambiguity in the market relative to "who belongs to what"
- Arms the manufacturer with recourse for a dispute cycle with the operator as a partner

C. <u>Visibility & Standards</u>: Offer a higher Admin Fee for GPO's providing claim details following the Standards we have established. Unit level transparency in a standard format opens the opportunities for manufacturers to apply technology to the audit process and increases the probability of discovering discrepancies. Conversely, reduce the Admin HQ fees for those that do not meet the minimum standards for location-level clarity.

- Creates a reward mechanism for following Good Practices
- Eliminates opportunities for Faux GPO's to earn equivalent rates for artificial members
- Builds the opportunity for manufacturers to leverage technology for more efficient audits

How to Address Extendibility & Compliance [e.g., teeth in the process]

D. Eliminate Deviated Pricing: Takes the blood out of the water. A bold move but the most effective method for eliminating extension.

- If too extreme, at least position this as something in the tool kit for repeat offenders – the trading partners need to at least know that this is a potential implication for proven abuse

E. Choose Shelter vs. Deviated: Recapture GPO volume – deviated and Admin – from Shelter. For situations like Cheney Brothers who were claiming 90% plus of their purchases as deviated for foodbuy, this will choke their sheltered income to a negligible trickle.

- Distributors not likely to accept reduction of shelter – it's their lifeblood
- Best question on this is "why not?"

F. Recapture Deviations from the Admin Fee: Reduce the GPO Admin fee to account for invalid dollars claimed against their contract by their distribution partners [e.g., discrepancies]. With an increasing amount of claims settled via deduction, there are few other options for recourse and dispute. Example: Ben E. Keith deducts $1,000 against foodbuy deviated but they were actually only due $700 if they had applied the correct rates. The foodbuy Admin Fee check will be reduced by $300 to recollect the discrepancy.

- Provides mechanism for manufacturers to become "whole" on what they actually owe
- Builds accountability for the GPO to enforce integrity with distribution partners
- Provides avenue to recapture discrepancies sourcing from Serial Deductors like US Foods

G. Support to Black List Repeat Offenders: Build language into the GPO Agreement that affirms the support of the GPO in Black Listing distributors found to be Repeat Offenders on Extendibility. Require the GPO to arm the manufacturer organization with written confirmation of that process and to engage resources in notifying Black Listed distributors that they are no longer eligible to participate in Deviated Billing.

- Builds accountability for enforcement into the GPO culture and provides mechanism for pulling the privilege to participate in the Deviated process for that contract

"Nice. I like it", David thought out loud. "But you know, it is very difficult to get everyone aligned on something like this. These ideas need critical mass so that no one is the Tallest Nail. If we leave it up to each company to communicate this type of framework, it'll be 2013 or 2014 before any meaningful change happens. We run the risk of this losing momentum and slowly dissipating. How can we kick start this and let the key constituents in the industry know that we really are serious and prepared to take action?"

Taking his turn at the whiteboard, David began writing out his points as he described each of them. "Why not model it after what the distributors do with their 'Buying Conference'? We'll call a Town Hall meeting and invite the key players. That would go a long way towards demonstrating a level of commitment and sincerity to the industry. The agenda would look something like this –

- 2 to 3 days of working sessions attended by key manufacturer, distributor and GPO personnel
- Kick it off with a General Session to reiterate the principles for compliance and integrity along with affirming the severity of the issues
- Provide each manufacturer with 45 minute sessions "one on one" with each trading partner in round-robin style so that the manufacturers can explain their perspective on the issues
- During the round robins, the manufacturers can provide their assessment of how well or poorly the trading partner is executing against those standards --- and explain the economic implications of continuing poor behavior
- This also provides each trading partner with an opportunity to ask questions, gain clarification on key points and explain their perspective on the role they can and should play in improving the process

Feeling like they had a plan to get excited about, Paul was now engaged in working through the question of 'Who attends' and began itemizing the key constituents. "We have to go big or go home here. We need to shoot to make this a true Summit that can be the jumping off point for true change and resolution. Let's fine-tune this list and then ask the broader group what they think … ".

20 minutes later, they had finalized a list that was manageable from a size perspective but also impactful relative to the key players at the heart of the issue.

<u>Distribution GPO's</u>
Sysco Avendra
US Foods foodbuy
Gordon Entegra
PFS Premier
Unipro Novation
IMA

As they began packing up their bags to head home, Dave provided the closing commentary. "Whew! I think that's a wrap. Let's write this up as our Case and turn it over to the true experts to react to. Let's ask them to read through this, debate these ideas and then come back for a group discussion for next steps. I'm excited – I wonder if they will be too?"

DISCUSSION QUESTIONS

1. Debate the assumption that a collective approach is necessary with industry-level participation. The alternative is for each company to take their own independent actions to address the issues.

2. Evaluate the suggested methods for addressing multi-dips for Admin Fees and Extendibility. Spend time brainstorming ways to improve them.

3. Discuss the recommendation for a "Town Hall" or "GPO Summit" that would involve key trading partners. Prepare to discuss your perspective on the level of support you believe can be generated for holding and executing that session.

    - The supplemental documents are intended to provide additional depth to the concept. At this point, they are purely demonstrative.

4. Spend some time talking about '*What success would look like by [next year]*' as a group. Make an effort to imagine the improvements to the process that will provide benefits to your company.

"Did you hear anything yet?"
For the thirty-seventh time in the past two weeks, Kate Perkins was on the phone hoping to hear that either Sysco or U.S. Foods had definitively and officially awarded the sausage business that they had both sent out "bids" on over 6 weeks ago. As the Director of Foodservice Finance for Nummy Brands, she was becoming increasingly uncomfortable with the general silence that had followed the December frenzy of preparing the proposals. She knew that, win or lose, there would be a slew of action items to execute once decisions started happening. For the past month, she felt that the organization in general had slipped into "waiting mode" and the clock was ticking on the fiscal year. They could not remain in limbo much longer.

"I have not."
For the eighty-seventh time in the past two weeks, Amanda Jackson had to explain that there was not any news to one of her Nummy Brand peers. As the Vice President of Corporate Customers, Amanda could feel the pressure building for her and the team to "deliver the business" that had been offered up for the taking.

Both executives wondered what was taking so long. And, they were both nervous that they had missed something in preparing their proposal and planning for life once the decisions were announced.
Amanda [Sales] was clearly agitated. "I hate the feeling of being on hold and just waiting – it's not my nature to rely on fate to determine our future. I would rather make some use of this time to evaluate our process so that we can improve the response process for the next one. Beyond sausage, we have another 5 categories that we will have to react to in the next six months."

Kate [Finance] understood the need to prepare for the next wave but was more focused on the action plans for the first wave. "I agree – we need to conduct a post audit of our process and determine where we might have fallen short and how to be more prepared on the next round. I have to tell you, I'm freaking out about mobilizing the resources if we win this first one. Supply Chain, Logistics, Finance, Customer Service, Sales, Finance ... everyone is going to need to reset their priorities to deliver the proposition if we win. At the same time, I am also losing sleep about what we'll do if we lose. The organization is not going to give us relief against our annual plan. We will need to make that volume up somehow and the clock is ticking."

"The problem that we both have is that we don't know what we don't know", Amanda was thinking out loud.

"What I would really like to do is engage in a conversation to consider what other companies may be doing differently and to begin defining some Good Practices. Lets start outlining a checklist."

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DISCUSSION QUESTIONS

Building upon the experience gained from the bid processes that you are already engaged in, what advice can you provide as it relates to:

1. **Preparing for the next wave of bids.** Examples to consider discussing include --
    - What areas of the process were more difficult than you anticipated?
    - What areas did you feel you did not have enough time to complete as well as you would have liked to? In other words, what are the long-lead items for the process?
    - How complex were the steps required to determine the amount of volume that is "secure" and "at risk"?
    - What are the critical action steps and/or data elements required for Finance to solidify the numbers for the proposal?
    - Where did you source the expertise and experience to create a portfolio rationalization proposal [suggested SKU assortment]?
    - How frequently did you have to schedule meetings with the Senior Executives and how challenging was it to engage them in playing a meaningful role?
    - How much time was required to gaining alignment with Supply Chain or Logistics to plan for delivering the proposal?
    - Where did you source the expertise and experience to write and compile the actual response document itself?

2. **Building contingency plans for winning and losing**. Examples to consider discussing include --
    - How much effort – time and people – is required to draft a solid execution plan for either potential outcome?
    - What functional areas add the most value to that exercise?
    - What will you do differently on the next round of responses relative to contingency planning?

"I cannot believe there is nothing we can do about this! My team killed themselves validating these claims and we identified a huge amount of money that Gordon owes us back. Are you sure there is nothing we can do?" Rachael Johnson of Big Boy Foods was directing her frustration at Mark Crosby. Mark had been given the task of presenting options for reconciling invalid claim dollars with the sales team and had just given the bad news that there would be no real action for recovery.

He did his best to lay out the story for the group of finance folks attending the meeting --
"In the old days, when we used to pay shelter and earned income with checks, the reconciliation was easy. Now that GFS deducts everything, we have very few methods for getting that money back. I met with Ned Timlin and Mark Aynes. They have talked to GFS and also US Foods, Reinhart and Shamrock. Apparently, it is a systems issue. Those customers have to deduct. So, I think we need to come up with some better options here. No one is budging on this and there is no support for putting huge amounts of volume at risk."

Sensing that the issue needed some context, Eve SanAntonio was next to chime in. "I've been settling these shelter deductions for years now. If you really want to determine whether or not the amounts are correct, it's hard work and takes quite a bit of time. It used to be once per month, but, now it's becoming a weekly process. Since the values are so large, the AR folks are on me 24/7 about the outstanding deduction balance. So, I have lightened up on the rigor of my process to move these through the system. If we are going to accept deduction as the method, then, I think we really need to simplify the shelter offers themselves so that we can validate accurately and quickly."

Rachael was not ready to give in to a single solution – "Why don't we convert GFS and US Foods to Off Invoice allowances like Sysco? That would give us some control over the rate we pass through so that we can adjust for discrepancies and recapture. It would also reduce any exposure we might have with some of these lawsuits I've been reading about. If we can execute as OI with Sysco, why not with these other accounts? We'll just make it a policy or blame it on our software system."

Realizing that his group had some momentum and a few decent ideas, Mark pondered his next steps. He recalled hearing about an industry group focused on trade solutions and began thinking that if this could be solved by anyone, they would be the group to do it. Scrolling through his contacts list, he called up the information for Greg Sullivan and fired off a quick email.

Greg,

How are things in rainy Seattle? The 'Hawks are off and running but our Patriots ... not so much. Anyway, I need you to give us some help through that trade group thing you belong to. More than 76% of our sheltered income is now settled via deduction and it's growing by more than 20% per year. So, without checks, we have no good way to "get back" the discrepancy dollars from operator claims and our ability to "call and beg" is poor. We also cannot recapture or clawback national account volume. Finally, we are spending more time than ever before trying to validate these and clear the deductions to get our days outstanding in line with our goals.

We need help with ideas for how to get control of this. My internal team wants to convert to off-invoice like Sysco has been doing. But, you know the sales team over here. We are getting a lot of resistance to make any change that could start a lot of trouble.

We need a solution and are hoping you can give us some ideas. Best to the family and hope to see you at the next Buying Conference!

Thanks!

DISCUSSION QUESTIONS

Provide at least two possible solutions for the Big Boy Foods dilemma with a high level description of the pros and cons. Most importantly, outline an execution plan [internally and externally] that Big Boy could begin working with immediately.

"This is crazy. How are we going to give them what they want? It's like the forest is burning and we need those crazy people who jump out of planes to come put the fire out before everything we've worked so hard to build is all gone." John Lark was beside himself. Recently promoted to manage all direct trade and operator discounts for the foodservice division of ACME Brands, John was struggling with how to deliver against his first big assignment.

Amy Johnson, the director of Finance supporting John was more optimistic. "At least the goals seem pretty clear, right? We just need a small group of people who really know the business to help us define those sets of metrics they talked about. Actually, I have heard about this trade strategy group. They're supposed to be the best of the best in this area. What if we ask them to take on the challenge and see what they come up with?"

John brightened and saw a glimmer of hope. "I definitely think we need help. If these people can give us anything at all to get started, that would be awesome."

Only 90 minutes prior to that discussion, John and Amy were sitting in the conference room at the ACME headquarters, surrounded by the key leaders of the division. Scrolling through a presentation of numbers and bar graphs, the senior financial executive Tom Howell was taking the group through a depressing story.

"As you can see, volumes are stronger than 2008 and 2009, but, relatively flat over the past 5 years. Most concerning is that our direct distributor spending is up almost 8% and operator discounts have increased by 10% over last year.

Even though we are taking pricing actions to cover our cost increases, the majority of our trade is based on a percentage of revenue and our operator discounts are mostly deviated pricing that both act to negate our pricing actions.

In summary, we cannot afford to continue spending more for the same or less volume. We are eroding our margins and turning what used to be great category businesses into ordinary ones that fall below corporate expectations for returns.

I'm just the bean-counter in the room so take my lack of experience with customers into account. If you ask me, I think we have to get more volume growth for all of this money we're spending. The bottom line numbers indicate we're spending more for less. I'm probably over-simplifying, but, it seems to me that we should stop funding those activities that do not drive volume and start doing more of the ones that do."

Cindy Charles, the long-tenured VP of National Account Sales jumped into the fray first. "Well, our top 100 chains are the lifeblood of the business and represent more than half of our volume. In our business, we have to meet competition and everyone is offering crazy low prices to try and steal our business. It's clear to me that we need an operator-focused strategy that channels funding away from sheltered income and 'no show food shows'. At least with our operator spending we have a direct link to volume."

Tony Ryan, the VP of Distribution Sales and leader of the field sales force, abruptly stopped reading emails on his iPhone and joined the conversation. "That's too convenient of an argument. We all know that our distributors leave us very little room to reduce the funds we provide. If we don't pay the piper, the distributor may very well just stop buying from us altogether. It's no different than greens fees to play golf. If you don't pay the piper, you don't get to play. Cindy, you should try selling to those fabulous chain accounts of yours on a restricted distribution basis. See how your purchasing agents like fighting to maintain inventory. Good luck with that, my friend".

The emotions in the room had begun running high and the temperature seemed to have risen 10 degrees. Cindy had been through this argument many times before. She had her standard responses down. "Really? Are you really going to try to compare the value of your business with mine? Our customers commit to buying cases. We are the only part of the business where the spending has a direct correlation to volume." Tony fell back to his standard anti-chain response with no small amount of sarcasm, "... nice margins, too." And Cindy was ready with her next shot, "Well, our margins would be a heck of lot better if we weren't paying Sysco 15% and USFS 18% on every case one of my customers buys. Why do we pay them on my business anyways? Their operating markup should cover their costs."

Now raising his voice and completely ignoring both his iPhone and iPad, Tony was fully engaged in the argument. "You should come to Houston with me next month. Our product is mostly the same product as each of our competitors and it's next to impossible to convince anyone to support a reduction of income our lines. The 'next guy' is waiting right there to offer what they want."

And they fell into a pattern going back and forth.

Cindy: "No show food shows!"

Tony: "Three letters my friend ... G ... P ... O."

Cindy: "Blood money."

Tony: "Your P&L models are all based on an incremental P&L approach. You don't even consider all of our costs!"

Bonnie Chase, the newly appointed Executive General Manager for the group, had heard enough. After years in the ACME retail business, she was a veteran of these political sword matches. Her career success had been built upon her ability to logically break down an issue and introduce quantitative measures to track progress over time. She felt it was time to step in before this discussion escalated into a full-blown argument.

"In the retail business, we have data that tells us our share by major market and retailer. Let me ask a silly question since I'm new to the business. When someone wants to spend more money with a distributor, or offer a lower price to an operator, how do we decide whether or not we should? Basically, I'm wondering how we go about evaluating what we spend our money on and whether or not those are good investments? Tony, let's start with you. We have distributors who buy from us and we offer them funds to support our lines. How do we differentiate an 'effective' program from those that do not drive volume?"

Tony was not ready to be called upon first. The previous leadership was well aware of the challenges and did not usually put him on the spot. "Well, we sort of don't do that. The distributors view it all as one big bucket of funding for our line. We tend to take a more holistic view and just evaluate them on volume growth over time. We set spending thresholds by Region and monitor those teams to make sure they are not running above those guidelines. "

Bonnie was fully engaged in trying to understand the metrics in play. "So you know who is growing, but, how do you measure the trade dollars invested with each of them relative to those volume trends. That sounds like an opportunity to me. How about you, Cindy? How do you differentiate one operator contract from another?"

"OK. Well, for example we know that the Aramark contract calls for more than 500,000 cases and we have each of our top 100 ranked by their volume commitments for each contract", Cindy was thinking through the Friday weekly pipeline call notes she had just finished.

"But to be truthful, we do not do a very good job of tracking how much they're actually buying and how that compares to what they are supposed to be buying. Last summer we had 3 interns build a model in Access and we had a really great snapshot. Since then, the business has changed quite a bit and we've lost sight of those trends. Plus, many of our operators have multiple contracts to cover different categories. Those contracts all run across different timeframes. It takes a lot of time to calculate all of that ... and that's time we should spend selling."

Bonnie needed to move this discussion along and get to her next meeting. She stood and began itemizing bullet points on the whiteboard. "If I could summarize, here's what I'm hearing.

1. We spend a lot of money with our distributors, but Tony, your team does not have a set of scores or metrics that can provide a quick snapshot view of 'how we're doing' relative to that money.
2. On top of that, we do not have a good view into which operators represent the largest pieces of volume with those distributors, similar to a 'share' report I am used to seeing in our retail business. Rather than share by market, it would be more like share of the distributors purchases that end up sold against one of our operator contracts.
3. We have a decent grasp on the volume each contract is supposed to be but things get fuzzy when we try to tie out each contract and each customer considering all of the contracts.

Do I have that all right?"

The group did not respond right away as they were sensing that someone was going to be tagged with the responsibility to do something about that list. Bonnie continued.

"My son collects baseball cards. He and all of his friends can tell you all sorts of statistics about each player and team. They each know off of the top of their heads who the good players are, which ones are slumping or doing better and how each team compares. If a group of 10-year olds can sort out thousands of numbers to evaluate performance, we certainly can as well.

This is an important first step. Before we can begin making strategic decisions about how to spend this money better and begin controlling it as an investment, we need to establish some way of scoring how we are doing right now. Here's what I want, and I need a general outline of how this is going to look by next week. For our distribution business, I want a snapshot of each major distributor for the corporate or buying group and each key member. The snapshots should be a quick set of "scores" or statistics that Tony's organization can understand and work with. They should also account for volume and spending trends. We need to know where our money is truly going to waste and where there is some correlation to the volume trends we're seeing.

My second request relates to our operator business, where I think we need two sets of cards. One set will be for each major operator and measure them across contracts. We need a better handle with a quick "dashboard" that will tell us how we are doing financially with those major accounts.

Third, we need a set of scores or measures we can apply to all of our contracts. They would apply to chain accounts, bid accounts and local operator business. We need to have visibility into not only the volume but also the margins and how deep we're discounting to win those accounts."

The team remained silent and everyone was avoiding eye contact in the hope of dodging the follow ups. Bonnie felt she needed to give them a little more structure and direction.

"For starters, just come back with your best ideas for what the statistics or scores will be for each of those three areas. Imagine a set of cards that provides all of us with a quick view of measures. Just like our Supply Chain group measures themselves on fill rates, on-time delivery and pricing accuracy, I want some set of scores for measuring our contracts/programs, operators and distributors.

Now, I realize that some of what you might come up with might take time and resources. So, give me two sets of ideas to work with. One set of things we can do right now without a big investment in capital or too many resources working all night. That might mean narrowing your focus on how many metrics we have to identify for a smaller range of customers. We need to have something we can work with right now.

Second, give me a recommendation for your "dreams". If you had access to unlimited resources or capital, what would you absolutely love to have? We may not be able to deliver those, but, I think it will be helpful to stretch the envelope and allow ourselves to dream. Now, I have to run ... we'll reconnect next week to go over your thoughts."

As she left the room, everyone turned to John and Amy. Tony was first to make the recommendation that the two of them run with it and no one disagreed. "We'll, y'all better get a move on. We are going to be anxious to see what you come up with!"

You have been hired by ACME Brands to define six sets of potential measurements or metrics for three different use cases. We have three separate opportunities related to operators, contracts and distributors. Assignments for each opportunity are listed on the following pages.

DISCUSSION QUESTIONS

Group A – Operators:
Brainstorm scorecards that could be used to measure individual operators and span across contracts to provide insights into "how the business is doing". The metrics can be whatever you feel would be meaningful and relevant to tell the story for each operator and can also compare across operators.

Some thought-starters:

- What are the key volume trends, overall and by major category?
- How much are we spending and what are we spending it on?
- Relative to how much we spend, what we spend on and the volume, what "numbers" could we use to determine whether or not this operator is "good" or "bad" vs. others?
- What is our profitability?
- Which categories does this operator support and are those valuable businesses or not?
- Who does this operator buy from and how much of those distributor purchases does this operator represent?
- Are there any qualitative inputs that ACME should consider capturing?

Parameters

- The audience for the scorecards is broad … from the appropriate field sales personnel up to the Executive level
- Scorecards should be "quick views" that can be easily read and quickly digested

Deliverables

1. Define a set of actions that ACME can take right away to begin the process without a capital request and without huge resource commitments.
2. Define a longer-term set of actions that might require capital and/or dedicated people. This is your wish list. Do not confine yourself by boundaries you imagine based on your real-life situation. Allow yourself to push the envelope.

Group B – Contracts:
Brainstorm scorecards that could be used to measure individual contracts and span across years to provide insights into "how the business is doing". The metrics can be whatever you feel would be meaningful and relevant to tell the story for each contract and can also compare across contracts.

Some thought-starters:

- What are the key volumes overall and by major category vs. expectations?
- How much are we spending and what are we spending it on?
- Relative to how much we spend, what we spend on and the volume, what "numbers" could we use to determine whether or not each contract is "good" or "bad" vs. others?
- What is our profitability and how does it compare to other contracts?
- Which categories does this contract include and are those valuable businesses or not?
- What distributor does this contract involve and how much of those distributor purchases does this contract represent?
- Are there any qualitative inputs that ACME should consider capturing?

Parameters

- The audience for the scorecards is broad … from the appropriate field sales personnel up to the Executive level
- Scorecards should be "quick views" that can be easily read and quickly digested

Deliverables

1. Define a set of actions that ACME can take right away to begin the process without a capital request and without huge resource commitments.
2. Define a longer-term set of actions that might require capital and/or dedicated people. This is your wish list. Do not confine yourself by boundaries you imagine based on your real-life situation. Allow yourself to stretch the envelope.

Group C – Distributors:
Brainstorm scorecards that could be used to measure individual distributors and span across contracts to provide insights into "how the business is doing". The metrics can be whatever you feel would be meaningful and relevant to tell the story for each distributor and can also compare across distributors.

Some thought-starters:

- What are the key volume trends, overall and by major category?
- How much are we spending and what are we spending it on?
- Relative to how much we spend, what we spend on and the volume, what "numbers" could we use to determine whether or not this distributor is "good" or "bad" vs. others?
- What is our profitability?
- Which categories does this distributor support and are those valuable businesses or not?
- What key operators does this distributor sell to and how much of the distributors purchases do those operators represent?
- Are there any qualitative inputs that ACME should consider capturing?

Parameters

- The audience for the scorecards is broad ... from the appropriate field sales personnel up to the Executive level
- Scorecards should be "quick views" that can be easily read and quickly digested

Deliverables

1. Define a set of actions that ACME can take right away to begin the process without a capital request and without huge resource commitments.
2. Define a longer-term set of actions that might require capital and/or dedicated people. This is your wish list. Do not confine yourself by boundaries you imagine based on your real-life situation. Allow yourself to stretch the envelope

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