The Modern Distribution Management Strategic Planning Collection

12 blogs & articles on why distributors need to plan, how to do it and steps to avoid common mistakes along the way

This collection from mdm.com features strategic planning best practices from experts including Evergreen Consulting's Brent Grover & Harvard's Robert Kaplan.

■ *Managing Uncertainty*

Say Goodbye to 'Uncertainty'

By Jenel Stelton-Holtmeier

Prior to the last presidential election, distributors and manufacturers blamed slow growth on uncertainty. The election is now over; are you ready to get back to business?

In a column for Fortune magazine, Dan Primack said "uncertainty" has become "the excuse emblem of corporate America." Even if sales are up and cash flow is positive, CEOs have been holding back because they just don't know what's going to come down the pike in six months, 12 months or more.

And now that the election is over, guess what? We still don't have complete clarity – and we never will. That's simply the nature of business, Primack argues.

"If CEOs cite 'uncertainty' over the fiscal cliff as their reason for not moving forward, then they might as well close up shop," Primack writes. "Because after the fiscal cliff will be some other macroeconomic crisis, and then another and then another election."

Uncertainty should always be a part of your planning process, and it should never be a reason to stop working. There are ways to make sure you're prepared no matter what comes your way.

As Brent Grover says in *The Little Black Book of Strategic Planning for Distributors*, create three versions of your short-term business plan: a best case, a base case and a worst case. That way you can adapt regardless of the uncertainty.

And be brave enough to invest in your business even when business is slow, as ITR Economics' Alan Beaulieu told attendees of last month's Power Transmission Distributors Association Annual Summit in Dallas. Take advantage of low interest rates to invest and prepare your business for better times.

Regardless of what might be around the corner, it's time to stop standing still and start moving forward again.

Click on links in the articles to visit websites referenced.

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Founded in 1967 by J. Van Ness Philip

Publisher
Thomas P. Gale
tom@mdm.com

Editor
Lindsay Konzak
lindsay@mdm.com

Associate Publisher
Craig Riley
craig@mdm.com

Associate Editor
Jenel Stelton-Holtmeier
jenel@mdm.com

Contact Information
Questions, comments, article proposals, address changes or subscription service to:

Gale Media, Inc.
3100 Arapahoe Avenue, Ste 201, Boulder, CO 80303
Tel: 303-443-5060 Fax: 303-443-5059
Website: http://www.mdm.com

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■ *Vision*

Do You Have a Vision for Your Business?

By Lindsay Konzak

If you don't know what you want for the business, how will your employees? A recent Harvard Business Review blog, "How Leaders Become Self-Aware", argues that self-awareness is a critical factor in "business-building success."

As the author puts it: "It is self-awareness that allows the best business-builders to walk the tightrope of leadership: projecting conviction while simultaneously remaining humble enough to be open to new ideas and opposing opinions."

As a company grows, however, holding onto that drive – that vision – can become much more difficult. 2012 MDM Market Mover MSCO Inc., for example, recognizes this challenge and makes culture and communication a priority as it continues its strong growth trajectory. "That's a big challenge for us going forward. We're looking every day for talented people to help us grow the business. That's probably the No. 1 thing we're focused on is protecting that culture and communicating and emulating that to the rest of our team," says Doug Ruggles.

Valin CEO Joseph Nettemeyer echoes this sentiment and adds that when you're growing, every opportunity is an exciting one. "We just have to contain ourselves and say, 'Okay, let's stay on schedule. Get this thing done, and then we'll move to the next opportunity.' The biggest challenge for me is to make sure the organization stays focused," he says.

And that's where being self-aware can help. HBR recommends three key ways to get a better handle on what drives you as a leader: Take personality and other tests to gain a better understanding of your strengths and weaknesses; keep tabs on yourself – analyze your decisions and what results from those decisions; and finally, be aware of other members of your team. "Effective teams are made up of people who both understand and complement each other," the blog author writes.

However, Brent Grover, author of *The Little Black Book of Strategic Planning for Distributors*, says business leaders are often reluctant to confront their goals for a business. They may be conflicted between a desire to leave a family legacy to their heirs and the urge to sell their companies. But in order to effectively lead a company, managers must understand what they want to achieve with the business so that they can guide the organization in the right direction at the right pace. (Read more about building a vision for your business in the book.)

While all of this may seem a little soft, the author of the HBR blog argues this kind of self-awareness as a leader is essential.

■ *Data*

Balance the Blue Sky Mentality with Front-Line Intelligence

By Angela Poulson

Planning is "the art of the possible," says industry consultant Brent Grover in *The Little Black Book of Strategic Planning for Distributors.* While dreaming about lofty goals can be fun, it's a waste of distributors' time if those goals aren't achievable.

Part of determining what's achievable is understanding how well a company embraces change and how willing employees are to tackle new projects. What's equally important, though, is measuring the distance between the goal and a company's current situation, which means identifying areas where it may already be falling behind.

Grover says it's hard for many distributors to admit where their companies fall short, but it's an integral part of realistic planning. "No matter how great the plan seems to be, the plan is worthless if it cannot be implemented. Gaps, if any, need to be filled before moving forward," Grover says.

Businesses tend to be biased toward their strengths when conducting an internal assessment. And in "The Imprecision of Intuition", MDM Associate Editor Jenel Stelton-Holtmeier writes that managers' intuition about which opportunities and customers to pursue are often at odds with reality, since they are often based on outdated or second-hand information.

To supplement the experience and intuition of company leaders during strategic planning, Grover recommends incorporating information straight from the front lines into a company's internal assessment. Employee feedback, supported by a familiar understanding of day-to-day operations and a direct involvement with suppliers and customers, provides a broader and more valuable perspective.

Employee surveys are an ideal easy to way collect this information. For Grover's recommendations on what survey software to use, best practices for survey creation and how to use the results, visit StrategicPlanningforDistributors.com for a survey creation checklist.

■ *Lessons Learned*

The 5 Most Common Strategic Planning Mistakes in Distribution

By Angela Poulson

Distribution industry expert Brent Grover has helped hundreds of companies refine their business strategies since he founded Evergreen Consulting more than 10 years ago. With the release of his new book, *The Little Black Book of Strategic Planning for Distributors*, Brent offers examples from his experience advising distributors to help company leaders avoid common mistakes and turn their vision for long-term growth into an actionable plan.

Five common mistakes Grover says distributors make during the strategic planning process:

1. Failing to assess the internal environment. C-level executives, who operate at a distance from customer- and supplier-facing positions, may have an inaccurate view of the company's internal environment. Many leaders, Grover says, tout their companies as great places to work or easy places to do business with without having the data to back it up, and inaccurate feedback exacerbates the problem. "Management is too often told what they want to hear from employees, suppliers and even customers," he says. To obtain the unbiased internal assessment critical to understanding a company's enablers and constraints, distributors should consider having an outside party help with information collection.

2. Confusing the company mission statement with the company goal. Mission statements tend to be bland and unoriginal, and are often too subjective to be very compelling. On the other hand, strategic goals should be SMART: specific, measurable, actionable, realistic and time-sensitive.

3. Misunderstanding the company's key profit driver. Many distributors think that the driving force behind their company's revenue is their selling method or their logistics system. For most distributors, though, "the driving force is either an extraordinary knowledge of product applications or a remarkably deep understanding of their customers' needs," Grover says. Companies that can accept that their logistics, technology and sales methods are probably similar to competitors' will be better prepared to design effective business strategies.

4. Focusing on the wrong customer segments – or none at all. Grover says many distributors continue to invest in their largest revenue segments without regard to growth potential or profitability. Targeting must be done judiciously since, as Grover notes, all companies have limited time and resources at their disposal. "The strong temptation of distributors to target everything must be resisted," he says.

5. Failing to align the plan with business processes. "Many companies have spent huge amounts of time and money writing the perfect (or nearly perfect) plan only to show a presentation to the board of directors and then place the binders in the corporate archives. But musty books on a dusty shelf don't do anything to address the imperatives of a compelling goal, role clarity and mutual trust," Grover says. Summarizing company strategies into a one-page plan, which is built off the data that backs up the plan's conclusions, helps get employees get excited about where the business is going and clarifies their roles in getting there. Leaders should openly communicate the details of the plan to subordinates and should adapt management processes and incentives that support it. "Executing the strategy should not be a new activity or project for the company; it is built into the way the business is managed," Grover says.

■ *Implementation*

5 Obstacles to Strategy Execution

By Lindsay Konzak

At the Heating, Airconditioning & Refrigeration Distributors International (HARDI) meeting in Maui, Mike Workman addressed what's keeping distributors and manufacturers from executing strategy effectively. His presentation was focused on returning to the profitability many saw pre-recession, and what priorities companies need to have to do that.

Here are five of the obstacles to strategy execution he outlined:

1. **The inability to manage change.** Instead of creating and effectively managing change, most companies simply respond to change as it comes to them, Workman said. (Check out one approach to change management in the MDM Webcast, Managing Change: Tactics for Distributors.)

2. **A poor, vague or misunderstood strategy.** "I'm amazed at the number of people in an organization who don't know the strategy," he said.

3. **Not having a shared intent.** This, Workman said, is more important than the plan itself. The people in an organization need to have an understanding of "what they're about."

4. **Not having the right information available to the right people.** Earlier, Workman pointed out that when looking at the information to provide, you must "measure what matters." "Just because you can measure something doesn't mean you should," he said.

5. **A deficiency in leadership.** The role of a leader, he said, is to keep the past in the past. Create a culture not based on what used to be, but rather what you want your future to be, he said.

■ *SWOT Analysis*

How Can You Put Yourself Out of Business?

By Lindsay Konzak

Here's a new take on the traditional SWOT analysis: How can you put yourself out of business? Pretend you're your No. 1 competitor, paying particular attention to your weaknesses. Consider how a competitor could exploit that weakness for gain. This is the approach Lisa Bodell, author of Kill the Company, takes to encourage businesses to think differently about how they can innovate and make real change. Bodell is interviewed in this piece from Knowledge@Wharton, 'Kill the Company': Identify Your Weaknesses Before Your Competitors Do.

In a traditional SWOT, where companies look at their own strengths, weaknesses, opportunities and threats, businesses tend to be biased toward their strengths.

And while the SWOT exercise certainly holds value, taking a fresh angle – or "out-of-company experience" – to the method allows businesses to examine weaknesses with an eye toward making them their strengths. In Bodell's method: "You have three minutes," she explains in the K@W interview. "How will you put yourself out of business? Especially with executives, it gets their war mentality on. They are given permission to really look at what's wrong, and then ideally, find out where they are really weak. What can you do about it? Who can you partner with? Even better, how can you then turn that back onto your competitors?"

In *The Little Black Book of Strategic Planning for Distributors*, Brent Grover encourages distributors to use several sources to put together their lists of strengths, weaknesses, opportunities and threats. Use personal interviews, survey results, supplier feedback and other diverse sources for a more objective look at what your business needs to work on and conversely, what it needs to do more of.

Grover also encourages distributors to view characteristics in several lights. For example, while a distributor's strength may be having a major supplier, that may also be a weakness as it can result in buy-back dependency. That distributor also faces the threat of cancellation from that supplier or increased competition when that supplier appoints more distributors in the same market.

That said, there may be an opportunity to build out more relationships with suppliers to diversify the distributor's exposure. "It's sometimes hard to see that the same topic presents both a threat and an opportunity," Grover writes.

■ *Environment*

What's the Best Place for a Strategic Planning Session?

By Angela Poulson

Leaving the office can be good for the strategic planning process, according to distribution industry consultant Brent Grover, but leaving your technological connection to the real world behind is even more key to a productive meeting. Grover addressed questions, including one about the best venue for strategic planning sessions, during an interactive Q&A, *Inside the Little Black Book of Strategic Planning for Distributors: Ask the Author*.

Grover acknowledges that a change of venue can be stimulating. Perhaps this is why many distributors he's worked with think a strategic planning session should be held in a cabin at the top of a mountain somewhere. "It sounds romantic," Grover says, "but unfortunately you waste a lot of time getting there." And because most locations still have an Internet connection or cell phone signal, planning team members will still be tempted by a relentless stream of emails, voicemails and text messages.

"The idea of a strategic planning meeting is to get away from all that and to think about a year from now, and think about three years from now. I would rather have the meeting in the company's conference room if everybody would turn the phones and computers off and just focus on the meeting," he says.

Grover acknowledges that even behind a closed door, distractions can still pop up. So if you want to leave the office, look no further than a convenient and inexpensive venue in your own city for a change of scenery, without the need for a change in altitude.

■ *Human Resources*

Grover: Treat Employees as Assets, Not Expenses

By Angela Poulson

Companies have different approaches toward leading and managing people. Brent Grover says he has his own views regarding things like how much information to share with employees or how best to hold them accountable, "but I don't have the data to support an opinion about these choices being strategic success factors. " A lot depends on company traditions and leaders' personalities.

"There is, however, one leadership decision that does seem to have strategic implications," he said: the way leaders view their employees. Some view employees as highly valuable assets worthy of continued investment, while some behave as though employees are "an operating cost that must be kept at a minimum," Grover says.

Employees do, of course, cost money. In *The Little Black Book of Strategic Planning for Distributors*, Grover estimates the cost of getting a new distributor salesperson to the point of being a profit generator at more than $150,000. But, he says, "if distributors capitalized these costs as one would a piece of production equipment – instead of writing if off as a current expense – that would be an asset on the balance sheet of at least $150,000 per salesperson."

Trained sales reps are valuable, and Grover recommends distributors treat them that way. "Our findings over many years of working with distributors, and examining the data from all sources, indicates that distributors with a smaller number of more highly compensated people do much better than firms with a larger number of lower-paid staff," he says. As a benefit of lower turnover, distributors who treat employees well have more experienced staff who make fewer errors. These distributors also enjoy lower training costs and greater customer satisfaction.

Distributor strategic planning often delves into sales force attraction, development and retention, so

Grover provides a framework for determining the cost of recruiting and developing new sales reps in his recent book.

■ *The Economy*

Weather Economic Woes with a Worst-Case Business Plan

By Angela Poulson

In any economy, variables like supplier pricing changes and competitor market moves make it a challenge to accurately predict growth. This is especially true in a volatile global economy, and according to Brent Grover in *The Little Black Book of Strategic Planning for Distributors*, macroeconomic factors aren't the only thing distributors should factor into their plans.

"The specific concern is the micro-economy, the customer segments in the region and particularly major customers," Grover says. If customers have announced hirings or layoffs or plant openings or closings, those factors must be taken into account when forecasting growth. Expected acquisitions or divestitures in the sector can also help or hurt volume, affecting the viability of the business plan.

The micro- and macro-economies affecting distribution are beyond distributors' control, but planning for the disruptions they can cause isn't. To prepare for variables in the external environment, Grover recommends having a plan for how to handle the worst-case scenario, in addition to distributors' annual base-case plan. The worst-case plan outlines, in terms of sales and gross margin, the worst possible scenario that management feels can reasonably be anticipated.

In the worst-case scenario, many of the assumptions behind the base-case plan turn out badly. But if management can detect, through close tracking, warning signals that the base-case plan is turning worst-case, a contingency plan can immediately be put into place. This allows distributors to respond instead of react to uncontrollable variables.

For the worst-case plan to be viable, distributors must implement it at just the right time. "The effectiveness of the backup plan is negated when there is too little time available to take meaningful steps," Grover says.

■ *Technology*

Don't Forget Technology Goals in Your Strategic Plan

By Angela Poulson

When planning for 2013, distributors can't afford to ignore rapidly advancing technology, which touches diverse business areas from e-commerce and sales to warehouse management, customer service and logistics.

"For distributors, well-executed technology investments make a real difference," says distribution consultant Brent Grover in *The Little Black Book of Strategic Planning for Distributors*. Analyzing a company's internal environment is one of the first steps Grover says a distributor should take in the strategic planning process.

The SWOT (strengths, weaknesses, opportunities and threats) analysis is a helpful framework for that step, and it can be used to determine the opportunities and threats presented by a company's current software programs and its ability to make good use of them.

The MDM 2012 Reader Survey revealed three areas of technology that are front-of-mind for distributors coming into 2013: e-commerce, mobile and analytics (more on these technology trends at http://www.mdm.com/top-3-technology-trends).

Having the right technological tools and being able to use them well will be a differentiator in 2013. Distributors who are honest with themselves during the strategic planning process about how poor technology can threaten business goals will have a clear view of potential opportunities to turn those weaknesses into strengths.

■ *Finance*

3 Considerations for Using Debt to Fund Growth

By Angela Poulson

Cash is one way to fund strategic growth initiatives. Increasing debt is another and an option that too many companies don't take full advantage of. Brent Grover of Evergreen Consulting offers three considerations to keep in mind when looking at debt to fund growth in *The Little Black Book of Strategic Planning for Distributors*:

Consider the benefits of leverage. "One of the principles of strategic planning is that many companies don't have enough debt," Grover says. Leverage can magnify return on investment. See *The Little Black Book of Strategic Planning* for a strategic profit model that demonstrates the effects of leverage on ROI.

Understand owners' priorities. Fast-growing privately owned distribution businesses often face a conflict between owners who want to invest in growth versus those who want to distribute profits to working or non-working owners. The strategic planning team must also consider that shareholders' and managers' risk tolerance may fail to align with growth strategies that involve increasing debt.

Dissect your balance sheet. Heavily leveraged assets make it more difficult to secure a loan and may affect loan terms. Grover says a conservative balance sheet "has no more than $2 of debt for every $1 of equity (2:1 debt-to-equity ratio)."

■ *From the MDM Premium Archives*

MDM Interview: Taking Strategy to the Front Lines

Many leaders understand the importance of matching strategy with operations, but few companies have systems in place to actually do so, according to Robert Kaplan and David Norton, creators of the widely used Balanced Scorecard performance measurement tool and leading advocates for customer profitability analysis. Kaplan recently spoke with MDM Editor Lindsay Konzak about the challenges inherent with effective strategy implementation in a wholesale distribution company.

In their book, *The Execution Premium: Linking Strategy to Operations for Competitive Advantage*, Robert Kaplan and David Norton present a formal systems approach to implement strategy at every level of an organization. The authors' six steps, as shown in the graphic on page 4 of this issue, are:

- Develop the strategy by clarifying goals and conducting strategic analysis.
- Plan the strategy by selecting theme-based measures, targets and initiatives, along with accountability for performance.
- Align organizational units and employees to your strategy.
- Plan operations through priority setting and resource allocation.
- Monitor and learn from operations and strategy.
- Test and adapt the strategy.

The book integrates strategies outlined in the authors' four previous books as well as other management tools, such as activity-based costing and strategy development.

MDM: How do you believe economic conditions – good or bad – affect or motivate managers in developing and monitoring strategy implementation?

Robert Kaplan: In good times business is expanding, and it's easy for managers not to pay much attention to strategy because they are making money and markets are expanding. So it becomes more important when times get tough.

At that point you have to cut back some of the capacity and spending that you've been doing during the growth stage. If you're not careful you end up not just slashing waste and inefficiency and excess capacity but you end up slashing into the building of capabilities that you need to come out of any economic slowdown in even stronger shape.

It's important to distinguish between your spending on operations providing internal capacity from the spending you do that is building strategic capability.

During the slowdown you have to look much more closely at all the spending programs and all the capacity you have put in and hold onto only those that you want to sustain into the future. That's where strategy helps you focus.

MDM: Many distributors have anywhere from two to hundreds of branch locations spread throughout a region or the country. How do you effectively involve branch leadership and employees in applying strategy to operations knowing that branch managers are constantly juggling so many roles?

Kaplan: You talk about a juggling act, and it is. The word balance comes in here. They have to be excellent locally. They have to be excellent branch managers and have efficient local operations. But the balance is they also have to deliver on the corporate strategy and the value proposition to the customers. That is what managers get paid for: to keep operational efficiency and strategic direction in a good balance. And you can do both.

When you have a dispersed organization, that's when communication becomes extremely important. The customer thinks you are one company. They don't think you are hundreds of companies.

If you're trying to create a value proposition to customers, it's important that the value proposition is supplied by every one of your outlets. And having a local operating manager not following the corporate brand or strategy just undermines your positioning.

It's important to have awareness by every branch manager that they are operating under the umbrella of the parent corporation and have to follow the value proposition in how they work with customers, employees and suppliers.

I recognize that communication is not easy, but in today's age with the Internet and other enhanced communications, it's a lot easier. It's critical for the corporate leadership to establish not just a clear vision and mission but a clear strategy and communicate that so that every branch manager understands it.

Using a system like the Balanced Scorecard is a way of reinforcing that because the Balanced Scorecard is not just about short-term operational efficiency. It's about creating customer loyalty, creating value for customers, upgrading employees and working effectively with suppliers. The Balanced Scorecard is a great way of communicating the strategy of the company even when there are hundreds of dispersed branches around the country.

MDM: In your new book, you talk about putting as much thought into communicating strategy to your employees as you would with advertising to new or current customers. How do you recommend distributors approach this?

Kaplan: We do advocate that you treat your internal communications as importantly as your external marketing messages. Ultimately the strategy is not implemented by the executive team at corporate headquarters. It is implemented some by the branch managers but also by the front-line employees. They are closest to the process, to the customers and to the orders. They are working with the manufacturers.

It's so much more powerful when every employee is not just doing their job but understands that the way they do that job is contributing to the overall success of the company. It really empowers them to align and do their jobs differently or better to help the company achieve its strategic goals.

This is why you have to understand whether the company is trying to be lower cost to its customers or trying to be more of a strategic partner at solving a set of needs or trying to give the customers a lot of options and flexibility. Employees that understand that can work better in their day-to-day jobs in helping the company realize the strategy. They can't do that unless first they're aware of the strategy, and they understand the strategy.

MDM: How should distributors view their channel partners in developing strategy?

Kaplan: We've seen that companies are starting to extend their measurement and management systems to strategic partners such as suppliers and customers. You can't do this with 10,000 suppliers and 10,000 customers. But if you can identify those that you feel are really strategic, you can work with them to develop a sense of a shared strategy to make both of you better off by working together.

It enables the relationship to be governed by more than financial measures – such as cost or price – and you can talk about what each group is trying to achieve using the Balanced Scorecard. You can agree on metrics that both parties will work to achieve.

Talking about the measures that will govern the relationship is a great way to forge partnership with key suppliers and key customers. Then you should periodically monitor how you are doing on that relationship.

It's another tool a manager can use to talk more intelligently with strategic partners. The strategy will help to tell you who those are so you can go from the 10,000 to the 10 or 20 that are important to moving your organization forward.

MDM: You say businesses cannot "attempt to meet the expectations of all the existing and potential customers" they could serve. Is this a common mistake companies make and what are the consequences of this?

Kaplan: First you have to make a strategic choice. Are we are going to be the low-cost distributor, offering the lowest-cost buying experience?

That would be on price but also on reliability of delivery and no errors in products we ship and invoicing and other aspects. Generally that would mean you have a less extensive product line because the more scope you have the more expensive you are.

Or are we going to be customer-intimate, and understand our customers' needs and work with them as a partner as their total solutions provider?

That's a more expensive relationship. It means we assign account managers to the customers to understand them and work with them and then arrange our operations to meet their needs. It's very plausible and can be a very successful strategy but it's very different from being a low-cost strategy. You have to find customers that value that relationship.

Or you can say we're going to be on the upper end and tell customers they can order what they want whenever they want it. You will carry all the SKUs. That's expensive and very high-end service.

In a way those are three generic strategic choices. What you typically can't be is all three. One should be your dominant position. You can optimize your operations and people around that value proposition.

The second part of this is that within one of these strategic themes, you will have customers that deviate. They still may want special services or want to be more efficient. It goes back to having a good costing system.

Distributors operate with low margins, and so it would be easy for a customer behaving in a different way – with smaller order sizes, manual vs. electronic ordering and payment, special delivery requirements – to take a profitable relationship to unprofitable.

Ultimately you do have to measure your cost-to-serve at the individual order level and the individual customer level. Sometimes the cost system done well can mediate making a complete strategic choice and allow you to serve different classes of customers.

MDM: How do you feel about firing customers?

Kaplan: I usually say firing customers is the last thing we do. So if you find you have unprofitable customers, first examine your own processes. The customers may be unprofitable because your internal processes are not efficient in working with them.

So the first message is heal thyself and make sure your processes in serving that customer are reasonably efficient. If you're persuaded that you are efficient, the reason the customer is unprofitable may be because of the special services the customer is asking for, which are inherently more expensive.

Then you try pricing those special services. Often the customers' behavior will change when you get the pricing correct. They'll see the benefits of ordering in larger quantities, giving more lead time, more standard ship arrangements, and more standard packaging. They have the choice now as to how much they value the special features and services vs. how much they are willing to pay for them. That usually solves the problem.

Sometimes you can say to the customer that maybe if you just increased your average order size by 15 percent it would take an unprofitable relationship and make it profitable. Or you try to get a higher share of that customer's spending.

Those are the options you have – only if these don't work do you start to think of raising the price or encouraging the customer to find another supplier that can meet their needs better. But there are a whole series of things you can do to transform unprofitable customers to profitable ones.

MDM: Today's distributor is focusing more on profitability. In doing so, many distributors are looking at improving their pricing. How can distributors be sure they are making the right changes?

Kaplan: First, be sure you have the right data and instrumentation before you move forward on re-pricing. And the second is strategic orientation, which relates to how you think of your various customers or suppliers.

If you've thought about your strategy you probably have identified those suppliers and customers that are most important to your growth position.

With pricing you need to be cautious. If you are too aggressive you risk losing important suppliers and customers. If you've identified some suppliers and customers as non-strategic – or nice to have if you can make money with them but not central to your position – the short-term economics play a greater role in how you approach that group on pricing.

Strategic customers may not be as profitable as you like, but if you think you can build business with them because they are part of your strategy then you might want to give some time for that relationship to expand because the profitability may increase as they order more from you or order in better ways.

The data and instrumentation actually takes me back to my other interesting methodology, Activity Based Costing, which has been applied a great deal in distribution companies. As you look at major pricing initiatives you have to really make sure you understand your cost-to-serve.

Pricing should not be across the board. It has to be very rifle-like and targeted. Unless you really track the costs of working with the customers, you can end up making some big mistakes in the way you price. The same story goes for suppliers – it depends on how the suppliers work with you and your cost of maintaining relationships with them – two suppliers with the same purchase volumes could have vastly different profitability.

MDM: The last chapter of your book focuses on the creation of an Office of Strategy Management, with a small group of professionals focused solely on ensuring a company's strategy is carried out. How can a smaller company approach this idea?

Kaplan: It's a specific set of roles and responsibilities to make sure there are resources provided for strategic initiatives and that employees' objectives and incentives have a strategic component. In the last chapter we identified all of the processes associated with strategy execution. We do believe somebody has to make sure that gets done.

In a larger company you can have a team of two or three people, but in a smaller company you have to ask someone with an existing job to find some extra time to help you do that.

Or maybe you take two people – the chief financial officer and the chief human resources officer – and they accept that as their night job to keep the organization moving forward and focused on effective strategy execution.

Robert Kaplan and David Norton's book, The Execution Premium: Linking Strategy to Operations for Competitive Advantage, *is available through Harvard Business Press at hbp.harvardbusiness.org.*