

# Life After the Balloon Popped

It's natural to feel deflated after what you have been through in the recession. This article will help pump up your future profits by focusing on some precisely targeted growth strategies.



**G**rasping for any semblance of gain, distributors are now reduced to gleefully reporting sales increases of 3% to 5% over last year. That reminds us of a song from The Doors' 1971 release *L.A. Woman*: "I've been down so (doggone) long that it looks like up to me." There's a lot of wisdom in song lyrics.

The recession has technically been going on since December 2007, and at the end of this year it will be a three-year trough, which is really long for a recession. The industry and the economy have not rebounded from a disastrous 2009. If you're still sloshing around at -5% to +5% over last year's sales when last year was down perhaps 30% from peak 2007 or 2008, you're like the majority of distributors. A 5% increase over a 30% decrease puts you at 73.5% of

where you were two or three years ago at your peak. We don't want to rain on the parade, but it's a very small parade. This article can help you deal with that reality.

We are convinced that this is not a typical recession that happens after a normal business cycle. We are in a fundamental evolution of the economy that has worldwide implications and will affect everything from banking to the dollar and the monetary system globally. It's a reality that every one of us must deal with. We don't want you to find comfort in 5% over 30% down or wait for the economy to save the day. It's not going to. Here's what you should be doing:

- Getting your business ultra-productive.
- Becoming an A+ student of both traditional and nontraditional growth strategies.

Did you ever think 5% of the distributors make more than 50% of the profits? Notice that we didn't say sales,

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we said profits. So why would you want to be just like the majority? If the game has gotten more competitive and opportunities exist to make more money on any volume you transact, why not do it?

We're not here to sugarcoat what the economy just did to us all. Don't listen to people who do that — they are not looking out for your well-being at all. They don't like unpleasant realities because they have no guts to tell you like it is for fear you won't like them.

The reality is that the recovery hasn't happened as promised. July's new and existing home sales variances were both horrible. Unemployment hasn't budged from the 9.5% perch the government staked it to, but we all know it's much higher than that because of all the discouraged workers and underemployed workers. Durable goods orders increases have stalled out. It's looking like a lot of the industrial production was aimed at building inventories and not so much satisfying final demand.

You can't change what goes on around you from a macro-economic viewpoint, but you can change your reaction to it. The way we see it, distributors have a two-fold problem:

- You have to deal with a lower level of demand in your vertical niche and that's not easy to swallow.

- On top of that, you have to deal with an erosion of skills that happened as a result of orders coming in too easily.

In the bubble economy of 2003-2008, you simply had to fulfill demand for the most part. We hear numerous complaints that inside salespeople now almost never try to do any tie-in selling. They just take what comes to them and complain if you try and make them do any real selling. That's right, an erosion of skills, and here is how it happened right under your nose as the economy bubbled up driven by debt-propelled demand.

**Debt propelled demand.** In the 15 years leading up to 2009, the country was on a roll. There was plenty of credit to prop up consumption. Bankers were allowed to manipulate profits with exotic debt — derivatives and securities instruments to deliver debt to many undeserving debtors. People bought stuff before they could afford it, and that drove overcapacity at every level in the economy to satisfy the debt-propelled demand. It wasn't overcapacity at the time, but it was going to be. It was a bogus economy. The saddest part? Most of the money to fuel Fannie Mae and Freddie Mac to underwrite the mortgages was borrowed from the People's Republic of China.

People bought stuff like there was no tomorrow, thinking it would never end. Stores popped up everywhere with very little differentiation between them. Layered debt instruments made it all possible. Loosely issued loans were packaged into mortgage-backed security issues with credit default swaps on top of them, completing the house of cards.

When things started to unravel, the private debt bubble popped, causing the consumer spending bubble to pop,

and the real estate bubble popped. We're still waiting for the mothers of all bubbles to pop — the government debt and the dollar bubbles.

Meanwhile, with all of the excess demand pouring in, most of us didn't have to really market and sell much to get it, no less get into selling different products to different customers, expanding geographically or getting into non-traditional market adjacencies. You didn't need to do much to maximize profitability, either, because things were "good enough." Reengineering processes and applying technology to make your business scalable is hard work.

The economy did the whole job for most of us. But now the bubble is burst so what does a distributor do? You've got to get a real competitive advantage in your core markets and then get into non-core markets. Here's your strategy for the "post-bubble" economy:

- Realize that your marketing and selling skills have eroded and overhaul them.

- Make the most money you can on the volume you've got by reengineering work processes and applying technology.

- Pursue multiple growth strategies, including traditional and non-traditional sources of growth after optimizing your core business.

## OVERHAULING MARKETING AND SALES

**Focus on where the money is.** If you want to get paid a lot, go to people who have the money. Instead of spreading your marketing and sales resources around 2,000 accounts that each do about \$5,000 per year, why not focus on those that currently buy or have the potential to buy over \$60,000? Roden Electrical Supply, Knoxville, Tenn., calculated that more than 80% of its profits came from that group. So focus your marketing and sales resources and people on where the money is, not who they feel comfortable talking to.

**Adopt an ROI marketing and sales mentality.** Here's another focusing thought. Instead of mailing or e-mail blasting to 2,000 customers monthly, write really pertinent direct mail and e-mail marketing once a week to your top 200 accounts and prospects and see what happens if you step up your sales efforts with just them as well. Well-known author Chet Holmes recommends a similar strategy in *The Ultimate Sales Machine*.

**Drive sales planning and execution discipline.** The way we see it, you have three types of opportunities in sales: Current best customers, high-potential customers and high-potential prospects. They each take different strategies. The sales manager should have an estimate of the yield of each group and for each salesperson, bottom up. Then demand that your salespeople plan activities to reel in the business by focusing on the right issues with the right people. You can only measure results, but you get results with the right activities. Change your sales meeting to focus

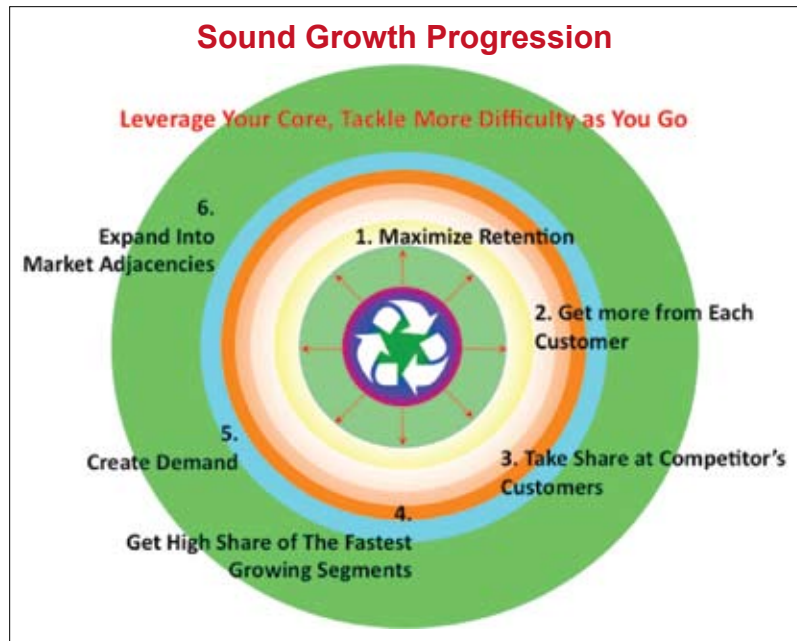
on activities, which are extensions of strategies to get more business. Don't just sit around and look at the fact that you're up 5% in industrial and down 12% in contractor business. That will just frustrate you and generate a slew of excuses.

**Retrain your people to really relate to customers.** We get into these kinds of conversations all the time. Salespeople typically don't script the conversations and figure out how to respond given different customer reactions. We end up coaching people all the time on how to handle the different responses they might get so they can take their best shot at countering objections and put-offs. If you really want to teach your sales force how to do this, try a Sandler Sales Training Professional ([www.sandler.com](http://www.sandler.com)), probably the best around at the psychological aspects of selling.

## GETTING YOUR BUSINESS ULTRA-PRODUCTIVE

**Identify your cash traps, pricing sins and productivity gaps.** Most of the stuff you read about productivity and asset management talks about the measurements and not the processes that create the problems. Knowing your asset-turn ratios and SPA claims yield rates will simply frustrate you if you don't know the process behind them, the typical things that go wrong and how to categorize and prioritize your attack on errors. That's where you need to concentrate. Process inefficiencies create bloated assets, labor excesses, poor pricing mechanisms and low SPA claim yield rates.

Cost-plus pricing practices limit your profits and cause more work to keep up with the cost updates. It limits your profits by putting the focus on cost as the pricing baseline versus other baselines such as list or trade column prices that may have variable markups already applied. Plus, once people know cost, they tend to gravitate towards it. You want people to think gross margin percent desired, not markup percent.



Sustainable growth springs from a solid core business with highly productive, cash producing core that feeds outer areas of high growth. It also requires that you learn about each of the growth strategies shown in this diagram.

It drives higher gross profit dollars on a transaction.

Another problem is dealing with product lines or stock-keeping units (SKUs) where you get a substantial price advantage relative to other distributors. Do you have to give a substantial part of that away by applying the "normal" markup? Or do you want to make more margin dollars than that? We think the latter. The idea is to maximize margin per line item sold versus cost to fulfill the line item. For a short movie on this subject, go to our Growth Wizards website and click on [www.growthwizards.com/articles/20100727](http://www.growthwizards.com/articles/20100727).

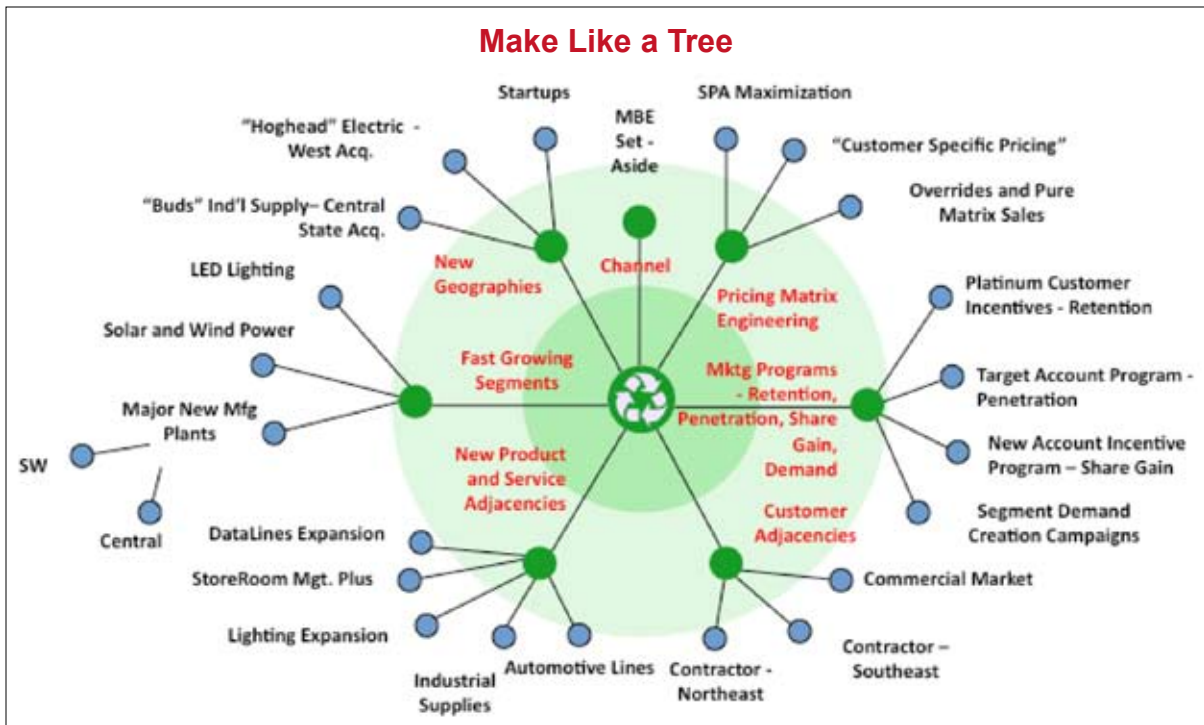
**Apply process reengineering and technology.** Think of how competitive a football team would be if it didn't write down the play and get the players to memorize the playbook. Most distributors don't do this. They do "on-the-job" training and wonder why 18% of their transactions (the industry average) have errors associated with them. And that's just the problem with errors. What about inefficiencies due to unwieldy processes with too many steps, redundant steps or too

much manual labor? If you don't know how to staple yourself to a transaction, flowchart a process and write a work instruction, then it's time to get busy. Then work on applying technology to really take manual labor out of the equation, but only after you understand the plays you're running.

**Make your business scalable.** Assuming you're successful with the next part of the strategy to produce growth even in a flat economy, you'll want to automate everything you can to make sure you don't have to add many people as you grow. That way more gross margin goes to the bottom line instead of unnecessary compensation and benefit costs. The best way to avoid increasing government payroll taxes is to have lower payroll and fewer people relative to your volume.

We don't advocate simple headcount cutting. The best opportunities to do this are automating purchasing for stock replenishment, receiving, put-away and picking in the warehouse; automating three-way matching for accounts payable; automating SPA contract importation, setups and claims;

*(Continued on page 34)*



Each of these six master growth strategies builds on the prior one and strengthens the core of the business just as it does a tree.

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and converting customers to e-billing. There's more, but these are the big ones. They all get the business system to do the work, while the people set up the system and manage the exceptions only.

**Pursue multiple growth strategies.** If your vertical market is down and looks like it will stay down, you have two choices. Accept your fate, or become a student of growth. It's not good enough to know your business—you need to learn about how to drive growth in any business, and open up your mind to getting into other types of business that you can leverage or make use of substantial core resources in order to boost return on investment (ROI) as you grow. All of this assumes that you made your business highly productive at the center (the core) of the diagram on page 24, "Sound Growth Progression."

The first step is to realize that you know very little about growth as a scientific process and being receptive to learning about growth strategy. The second step is to not feel inadequate and

overwhelmed if you realize you know very little about other markets you could pursue, or how to do mergers or acquisitions. Build your knowledge base over time, but identify your most important strategic growth opportunities, and then start learning about how to execute on multiple opportunities at the same time. This spreads out your risk and multiplies your chance of success.

**Follow the growth progression or risk toppling the tree.** The diagram "Make Like a Tree" on this page shows six master growth strategies. Each one builds on the prior one and strengthens the core of the business just as it does a tree. The core is meant to be productive in channeling resources to the areas of high growth in the outer part of a tree or a business. It needs to be productive in terms of the volume of cash and the velocity of cash generation as well. That way the business (or a tree) can support more growth. Hence, the best thing to do for your business is to focus on getting it ultra productive with one team and getting another team focused on growth planning simultaneously—so the two get executed at the same time down the

road a bit, and you accelerate profitable growth sooner. For a short movie on this process, go to: [www.growthwizards.com/articles/20100718](http://www.growthwizards.com/articles/20100718). ■

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