

## Strategic Planning for Distributors

### Part 2: Key components to execute

This second of a two-part article addresses how distributors can build and implement an effective strategic plan.

By Brent R. Grover

As I outlined in the first part of this article, a sound strategic plan is a gauge and tool for better decision-making and can help you communicate to employees how and why their contribution is important to the future of your distribution company.

Companies usually go wrong when they conduct their annual business planning process because they link the operating plan for the next year to the expected results from the current year. Instead, the annual business plan should work toward fulfilling the "Big Hairy Audacious Goal" outlined in your longer-term strategic plan.

Though an outside facilitator can be beneficial, the strategic planning process is simple enough for most companies to do on their own.

Key components of a strategic plan:

1. determine your driving force;
2. define your "sandboxes";
3. recognize your Strengths, Weaknesses, Opportunities and Threats;
4. create a Big Hairy Audacious Goal;
5. outline your financial objectives;
6. pinpoint a business concept, strategic issues and strategic breakthroughs; and,
7. implement your plan (hardest of all).

### The Driving Force

Every business has a single driving force that dominates the enterprise. For example, the driving force of an energy producer is its natural resources holding; for a fast-food franchisor the driving force is its distribution system; for a TV shopping network the driving force is its unique selling method.

The first step for a strategic planning session is identifying the company's driving force. This is often difficult for distributors. Many teams incorrectly believe their companies' driving force is growing sales or increasing profits. Some feel their driving force is technology, or their proprietary selling approach.

The correct answer for most distributors is a uniquely deep understanding of their customers' needs, or an especially strong knowledge of the applications of their products and services. Either way, each distributor has one, and only one, driving force that is the fulcrum of its strategy.

### Distributor's "Sandboxes"

Each distribution business has a specific set of three sandboxes in which it *plays*:

- products and services;
- customer segments; and
- geographic markets.

The strategic planning team is charged with defining what is to be inside each sandbox, and then to prioritize. The three priorities are: grow, maintain and harvest. Any product/service, customer segment or geographic market below these priorities must be left out. Distributors have a tough time filtering opportunities out; they find it difficult to assign any priorities other than *grow*. Managers enjoy talking about what their companies have started doing recently, but one of the most challenging questions for distributor managers to answer is "What have you *stopped* doing lately?"

The products and services sandbox includes the broad product categories (not individual products, lines or brands) that need to be in the *grow*, *maintain* or *harvest* categories. In addition to products, distributors need to include and prioritize

continued on next page

## INSIDE

### Rexel to Buy GE Supply for \$725M

Combined company revenues of \$4.7 billion in U.S. puts it among top three electrical distributors with competitors Graybar and WESCO.

Page 4

### Tech Case Study: Four Locations, One System

Allied Valve wanted to support salespeople on the road and synchronize service and repair operations with distribution functions.

Page 6

### Werner Company Files Chapter 11

Ladder manufacturer squeezed by aluminum and raw material costs, operational restructuring including moving operations offshore, and too much debt.

Page 7

their value-added service offerings in the sandbox. Getting paid for services is a major and timely challenge for most distributors.

### SWOT Analysis

The textbook approach to strategic planning asks us to undertake an analysis of the internal and external environments, and to identify the company's strengths, weaknesses, opportunities and threats (usually called SWOT). The SWOT analysis is an important step, due to the critical nature of customer *and* supplier relationships for distributors, and also due to the very low barriers of entry and exit for competition.

The time-consuming (and expensive) SWOT research process can be streamlined in two ways. Early in the process, the facilitator can conduct a private and confidential structured interview with each member of the planning team. This enables each person to share concerns and to have direct input on the process.

Interview results also help to create a customized survey tool of about 40 questions. Every person in the distribution company who has trading partner contact (customers *or* suppliers), or who is in a supervisory role, will provide input on the electronic survey.

They will be able to do so from their computers, confidentially, and have the opportunity to provide input such as "What would I do if I were CEO?" and "If I could change one thing what would it be?"

They will also rate the company's products and services compared with its competitors,

evaluate the company's opportunities and so forth. Participation at this level provides priceless information as well as a sense of ownership of the results.

### The Big Hairy Audacious Goal

Author Jim Collins popularized the term BHAG in his famous book *Good to Great*. My favorite example of a BHAG is President Kennedy's 1961 goal for the space program of "an American on the moon by the end of the decade."

JFK's goal had the necessary ingredients: exactly what is to be done, by when. It was memorable, inspiring and certainly audacious – but the goal was of course also achievable (with great sacrifice!).

Distribution organizations need a BHAG, one that goes beyond the rather meaningless "motherhood and apple pie" of most mission statements (such as "Exceed customer expectations" or "Be the supplier of choice"). The rank and file responds better to a BHAG like Lexus' "Beat Mercedes."

We have seen our clients develop BHAGs – such as "\$100 million by 2008" or "XYZ's largest distributor in the U.S. by 2010" – that have propelled their companies forward.

### Financial Objectives for Three Years

Why three years and not five or ten? We're seeing more changes in the playing field occur in six months than we used to see in two years. It's too difficult to see around the corner due to new technologies, rapid globalization and shifts

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in government policies, to name a few reasons.

The organization's BHAG needs to be translated into financial goals. Three-year goals calibrate the annual business planning process into a quest toward the BHAG rather than the old "last-year-plus X%" method.

Specific goals (such as sales, gross margin percentage, personnel productivity, fill rates, error rates, customer satisfaction, receivables and inventory metrics) also form the platform of a tracking system (Key Performance Indicators or KPIs). The KPIs can be the starting point of every management meeting, the basis of incentive compensation and the benchmark of management effectiveness.

### Business Concept

Not to be confused with the driving force, the business concept is a short statement of why customers buy from us instead of competitors. The concept may be the "elevator speech" that helps every employee to stay on message.

Example: "We are the only distributor in the market that services and repairs all brands of equipment whether we sell it or not." Another possibility might be: "We carry all brands and have the lowest prices in the market."

One of the issues we help distributors deal with is the contradictory business concept, such as this: "We have the deepest inventory, same-day service at no extra charge, no minimum order, a sales rep for every account and the lowest prices." Gulp! They usually aren't making any money, either.

### Strategic Issues

The planning team needs to pinpoint the company's strategic issues, usually half a dozen major stresses that must be addressed if the company is to move forward.

The company's playing field may be rapidly changing due to competitors' moves, and possibly due to the distributor's own failure to make necessary moves. For distributors these moves often involve key sales people moving from company to company, major suppliers adding or dropping distributors, and expansion of competitors into new markets.

Distributors also need to do scenario planning on the things that could literally knock them off their feet: a natural disaster, failure of a large customer, relocation of a customer's business, etc.

### Strategic Breakthroughs

The strategic planning process finally boils down to choosing two or three strategic initia-

tives or breakthroughs that need to be started immediately and successfully executed within the next three years.

The strategic breakthroughs might be opening a new branch or branches, hiring key people away from competitors, making acquisitions or securing new product lines. The critical next step is to translate these strategic breakthroughs into the tactical steps to make them happen. The emphasis here is on what actions are to be taken, under whose leadership, with what resources, how, and when. There has to be short-, medium- and long-term goals and actions with specific people accountable for specific steps that advance the execution.

### Implementation

All good planning eventually "deteriorates into real work." The excitement of crafting a strategic plan fades, the facilitator goes home, and the plan goes into a drawer. Due to day-to-day challenges, information overload and the constant demands of any business, management teams often fail to "walk the talk" of their strategic plans.

Distributor management teams need to be accountable for executing the plan and achieving the intended results. The board holds the CEO accountable; the CEO holds the managers accountable. Incentive compensation, including deferred compensation such as phantom stock, must be linked to the strategic goals.

As Jim Collins says, a business needs to "have the right people on the bus, in the right seats." The organization has to have enough capable people to get the job done. Jack Welch's "rank and yank" (evaluate all employees and drop the bottom performers every year) may be too radical for most distributors, but candidly we have seen many distributors who are too tolerant of sluggish performance and failure to achieve results.

A good strategic plan, executed violently by talented managers, is the surest pathway to top-quartile performance.

*Brent Grover's firm, Evergreen Consulting, LLC, advises owner/managers of closely-held distribution and manufacturing companies about the challenges of strategy and ownership succession. Brent, a former national firm CPA and business school accounting instructor, has published several articles about these topics. He was in the distribution industry for over 25 years, most recently as CEO of National Paper & Packaging Co. Brent can be reached through his Cleveland office at 216-360-4600 or [brentgrover@evergreenconsultingllc.com](mailto:brentgrover@evergreenconsultingllc.com).*