

Strategic Planning for Distributors

Keep it simple, focused and easy to execute

This first of a two-part article argues that wholesaler-distributors need a different approach to strategic planning based on their unique operating environments. Here's how to frame the process and best practices for distributor strategic planning. The second part of this article addresses how to build and implement an effective plan.

By Brent R. Grover

Only 4 percent of wholesaler-distributors reported that they engaged in strategic planning in 1982, according to the original NAW/DREF study, *Facing the Forces of Change*. Much has changed over the past 25 years. Recent surveys of eight industries by my firm indicate that 30-40 percent of distributors have a formal strategic plan, and many others use some sort of informal long-range planning process.

When built and planned properly, a strategic plan is a competitive differentiator in today's volatile economy and current consolidation wave. For your executive team, a sound plan is a gauge and tool for better decision-making. For all employees, it is a clear communication about how and why their contribution is important to the future of the company.

Our experience with distributors of various sizes and industries shows that a large proportion of distributors who do strategic planning aren't able to successfully implement their plans. We believe there are two root causes for failure:

1. **The plans are too complex and the process takes too long.** There is too much emphasis on planning and not enough on doing. As a result, management often does a poor job communicating the company strategy to the employees.

2. **The plans aren't tailored to the specific needs of distributors.** Special issues such as sales compensation and supplier relationships, often considered tactical and not part of strategy, are of critical strategic importance to distributors. The wholesale distribution business is unlike many others; it's people-intensive, rather than asset-intensive. The barriers to entry (and exit) are unusually low. Large distributors are a collection of smaller branch locations, often loosely knit, and are more like a collection of smaller businesses than a monolithic, centrally controlled enterprise.

The One-Page Strategic Plan

Why do smart distribution management teams make plans their employees don't understand? One reason may lie at the feet of consultants. Regrettably, many plans drafted by outside experts are lengthy, dense and collect dust on a shelf.

The strategic planning process itself is simple enough for most firms to do the work on their own. An outside facilitator with the right experience and skills can speed the process and help to assure workable results. An ideal plan can be boiled down to a 'one-page strategic plan,' a simple summary every employee can understand and apply in his or her daily work.

Most distributors conduct the annual business planning process by linking the operating plan for the next year to the expected results from the current year. There is often no conscious effort to connect the operating plan to the company's strategic plan. This is a missed opportunity. We recommend a three-year
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strategic planning horizon for most companies. The annual business plan needs to move the company toward its “big hairy audacious goal” and financial objectives for three years out, rather than just an incremental improvement over the preceding year. Dramatic and constant changes in the distributor’s playing field make it necessary to execute strategic breakthroughs with determination and discipline.

The same oversight is true for the acquisitions process, which too often is based on reacting to opportunities that come *over the transom* rather than execution of the company’s strategy. Acquisitions tend to be opportunistic, often knee-jerk reactions to situations that suddenly appear on management’s radar screen. Distributors enjoy greater success with acquisition targets meeting criteria that tie to the company’s strategy: what products and services, which customer segments, what geographic markets? Other criteria in the company’s strategic acquisition filter include target size, management culture and degree of risk.

Even those enlightened distributors practicing ‘open book management’ have trouble implementing their strategic plans. Effective information sharing with employees doesn’t work well unless the people understand the company’s numbers and the significance to their own work responsibilities. True understanding requires lots of training and practice. It’s unwise to assume that “open book” employees will easily grasp the company’s strategy and supporting financial information.

“80/100” Strategic Plans

Why do smart distribution management teams make plans that can’t be implemented? George Patton famously said: “A good plan, violently executed now, is better than a perfect plan next week.” The corollary in distribution is this: an imperfect plan, well executed, is better than a perfect plan that is never completed. The managing partner of Bain and Company in Boston, Orit Gadiesh, proposes the 80/100 rule: “Apply the 80% perfect solution that the firm can implement with 100% success.” It’s distressing to listen to distribution CEOs talk about plans they can’t carry out because their firms lack management depth, capital or both.

We’re not suggesting that distribution companies create bad plans. But, at best, striving for perfection creates delays that waste time and money. At worst, the result of a quest for the perfect plan is that nothing is done at all.

Why Plans Fail

The most important planning tool we have is our mind. It can also be the most limiting. We have a bias for the status quo. It’s hard to shift our asset allocations. Something we already own seems more valuable just because we already own it. People who inherit portfolios tend to leave money invested as is, rather than sell and reinvest it. Veterans of strategic planning projects will recognize the following pitfalls:

- reluctance to write off losing projects,
- the desire to conform to the opinions of others, and

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- our tendency to overestimate how much others share our views.

That's where discipline in the planning and brainstorming processes forms the foundation on how successful your plan will eventually be. (This is where a facilitator can help cut through management groupthink and other pitfalls). Specific tools can be applied in each area to maximize the chances for a workable strategic plan.

Some or all of the following best practices will help to assure strategic planning success for wholesale distributors:

- In-depth structured interviews with key personnel at various levels.
- Detailed, highly focused strategic surveys including every individual with customer contact, supplier contact or supervisory responsibility.
- Identification of strategic issues for research, debate and resolution.
- A "big hairy audacious goal" and a small number of breakthrough strategies to move the company to its goals as rapidly as possible.
- Key Performance Indicators and a tracking system to keep management focused on executing the strategy.
- A "one-page strategic plan" format that each employee can understand and assimilate into his job responsibilities.

How Plans Succeed

A set of best practices for strategic planning has emerged from the experiences of many distributors. These guidelines have proven their effectiveness in a wide variety of situations:

- Keep the strategic planning team as small as practical, and choose carefully! The group has to be small enough to have productive discussions actively involving each person, yet large enough to include a diverse cross-section of management and even key leaders outside of management. Eight to 10 participants is a good number. Groups of 15 or more can't accomplish as much as a smaller group.
- Deploy the CEO with caution. The CEO needs to be a member of the team and active participant, but must refrain from dominating the process. A qualified outside facilitator is vastly preferable to the CEO or another senior executive whose urge to keep things moving may kill off good ideas.
- Strategic planning requires extreme focus, but for a brief period of time. The planning process can't be rushed due to the amount of

research and study of alternatives needed, but it can't be dragged out over too long. The process can lose its momentum and sense of priority over day-to-day management activities. The entire process may take as long as six months, but two to three months is enough time for most companies.

- Create the right conditions for the planning process. Ideal meeting conditions include comfort, quiet and privacy. The perfect meeting location is away from company offices and free from interruptions and distractions. A typical meeting takes an entire day, but not beyond the ability of the individuals to concentrate. Planning strategy is difficult work and can bring out strong differences in opinion. Each participant needs to be alert and well rested.
- The strategic planning process has a distinct beginning, middle and end. The initial phase (one month or less) will start with clear communications to the team about why each person was chosen, what is expected from each individual, and the group objectives and timetable. The facilitator should have a short, private meeting with each team member to ask questions and get to know them. The facilitator will draft a detailed survey or questionnaire designed to obtain input from many of the company's employees. Research about the company and industry conditions, financial analysis and detailed analysis of the interview and survey results will be the raw material for the planning team discussions. The middle phase (about two months) of the process includes the team meetings and subsequent research and scenario planning. The end phase (up to a month) is the drafting of the plan, the plan for implementation and monitoring of the implementation.

The second part of this article describes how to build and structure the plan, what and what not to include, and how to implement the plan.

*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.*