

ASAP

Annual
Conference

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**Rx For
Commodity Hell:
Customer Niche
Centricity (CNC)**



Disclosures



Bruce Merrifield is the President of Merrifield Consulting Group. The conflict of interest was resolved by peer review of the slide content.

ASAP's and NCPA's education staff declares no conflicts of interest or financial interest in any product or service mentioned in this program, including grants, employment, gifts, and stock holdings. He is receiving an honorarium for his presentation.

Pharmacist Learning Objectives

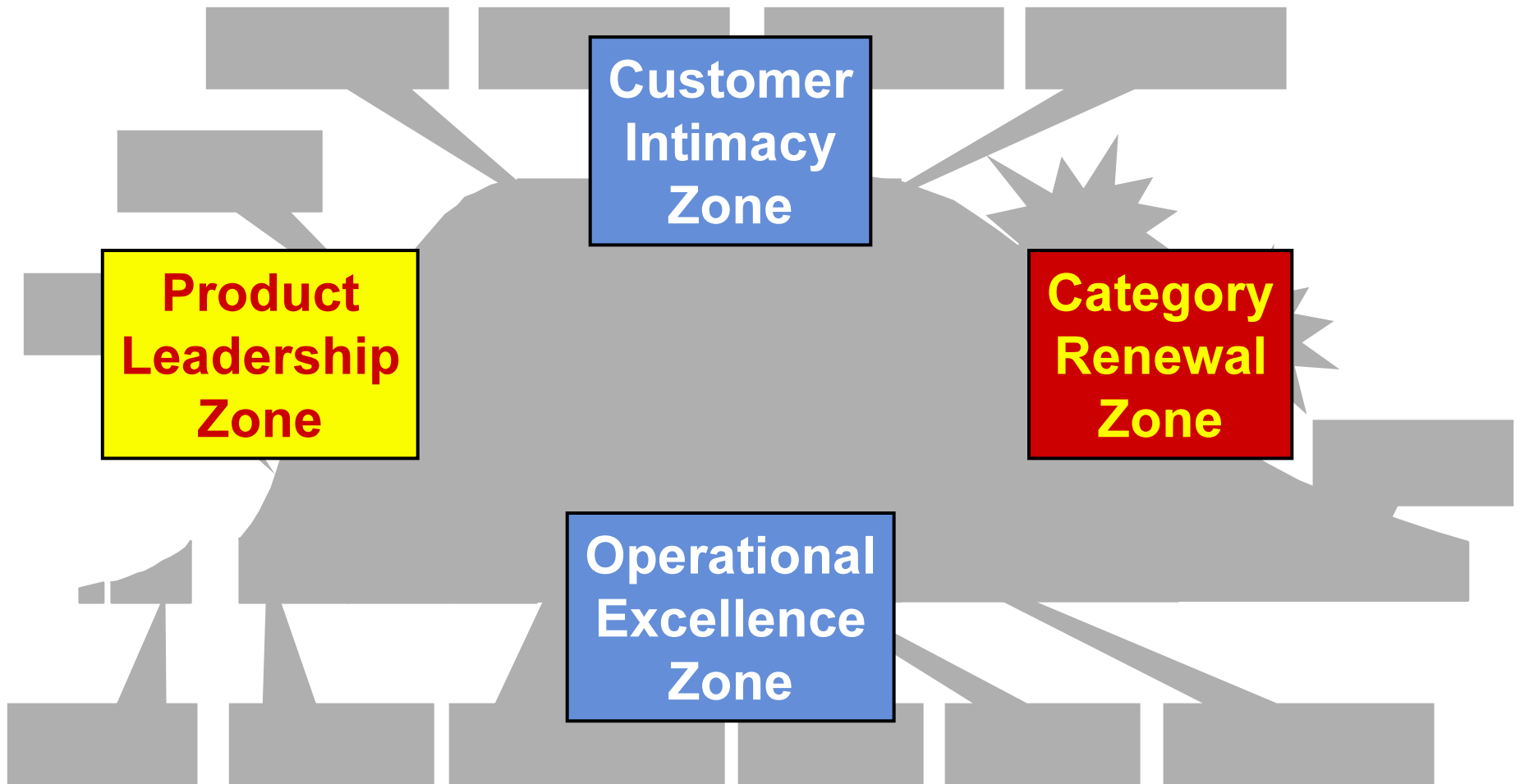
Upon completion of this activity, participants will be able to:

- Explain why the business environment requires Customer Niche Centricity (CNC).
- Describe how to better define historic, natural niches within a business.
- Describe how to co-create a next-level “service value equation” for a niche.
- Explain how nichonomics delivers both more sales and a lot more profit growth.

Big Problem for Pharmacists (Us)?

- Same commodities, same business model
- Too much retail capacity (supply) v
- New Normal demand
- Gov'ts and PBMs continue to squeeze
- Too “product/financial centric”?
- Not sufficiently customer-niche centric (CNC)?
- “Dealing with Darwin” Generic Strategies?

Four Innovation Zones



“Customers Are Our Priority! (?)” MCG



250 VC's Missed This CNC Story



Bath & Kitchen Channel Vets Scoffed.. 



Improving Home Improvement™

Hierarchy of Driving (limiting) Forces?

(1) Product (location-reach) business model

(2) Financial Goals:

- Cover monthly expense nut (“most” costs fixed?)
- Promote “Sales” => margin \$’s => profits
- Stock the (nationally) statistically-popular SKUs
- “Sales/square foot”; “same-store sales increase”
- Frugal on all operating expenses (Costco: 140%?)
- 110% generic service to win any/every customer’s incremental margin \$ that will flow to profit line

So, Customer Service is Really #3!

- What answers to niche people requests?
- Hemmed in by generic/statistical/financially-shaped: “service value equation”
- On-sale, cherry-pickers: “good customers”? (GM\$s < CTS & no repeat, profitable sales)
- High-cost, low-margin \$ niches: “good”?
- Unique, sustainable service value edge?
- Opportunity/distraction cost from CNC-ity?

Product & Customer=> Co #1's?



What niches of customers:

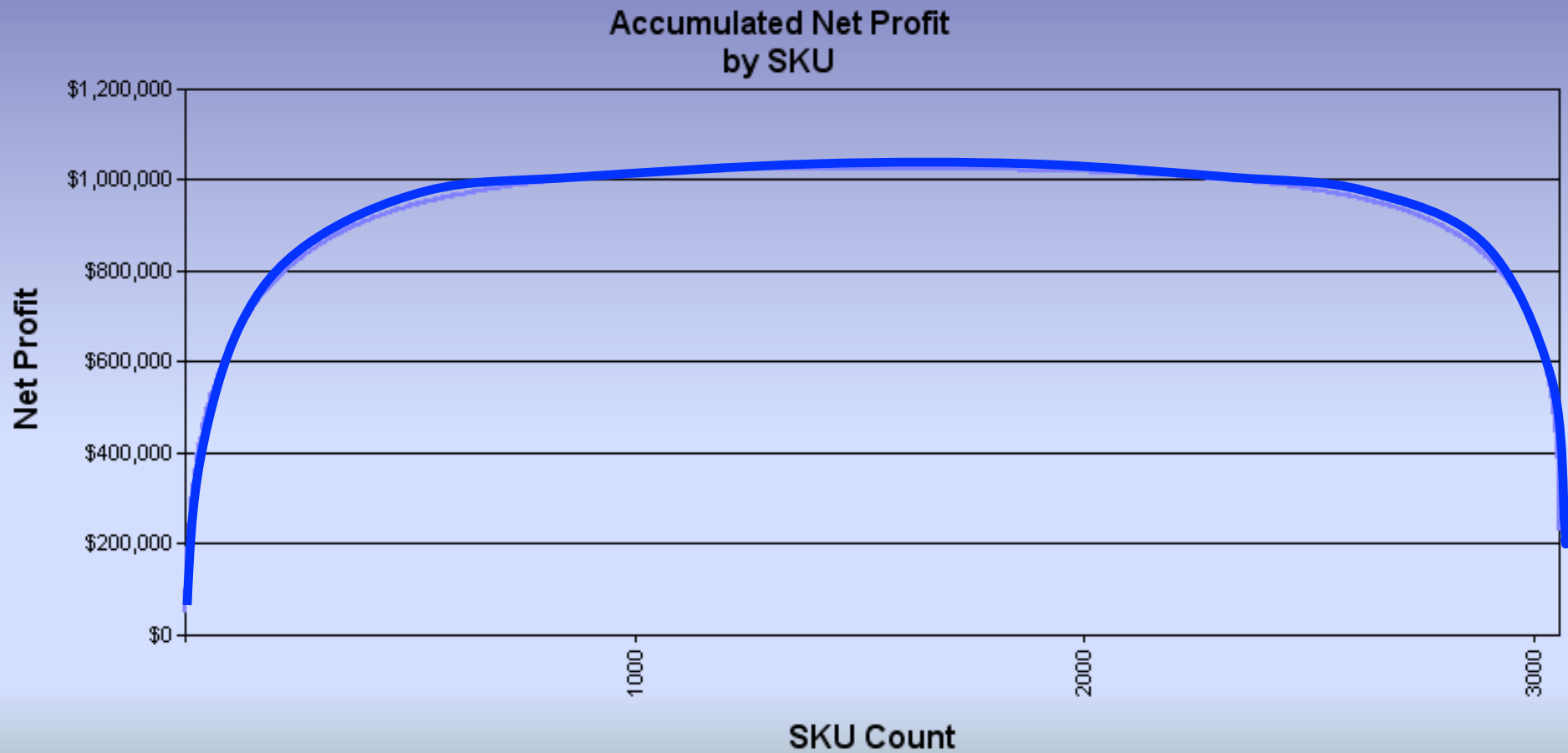
- Buy bigger volumes of profitable items (?)
- Live within location-reach?
- Are not high, “cost-to-serve” (CTS) types?
- “Value Exchange” Goal: $\text{Margin } \$s (-) \text{ CTS} = \text{Profit}$

Beef up and add to niche’s one-stop-shop needs? To:

- Grow net-profit per visit of targeted niche members?
- Capture more share of total niche?
- Get economies for both sales and CTS within a tight scope?

Financial #s (now #3) improve as a by-product?

FN: SKU Whale Curve (from who?)



FY 2009 | All Branches | All Reps | All Writers | All Distribution Types | All Territories | All Customer Types | All Groups | All Products & Services | All Vendors | Invoices On

FN: Walgreen's "Net-Profit Per Visit"

Walgreen's late '80s ("Good To Great" p. 104):

"Walgreens switched its focus from profit per store to profit per customer visit. Convenient locations are expensive, but by increasing profit per customer visit, Walgreens was able to increase convenience (nine stores in a mile) and simultaneously increase profitability across its entire system."

C-store items for everyone => local niches?

E.G. My CVS v. Economy Hardware



What Did Economy Do?



- Befriended Apartment Complex Admin Folks
 - Got floor and closet configurations
 - Demographics of last few years for new renters
 - Welcome bag & coupon for new residents
 - => survey
 - \$20 for 20-minute interviews with newbies on:
needs; budgets; procure/install scenarios
 - Crafted total-solution, for renters
(cart & quarters)
 - Used additional distributors; outsourced labor
- Beats general-segment thinking of CVS & Whole Foods*

Financial Possibilities



- **Double sales for the targeted niche**
- **Turn broader, deeper niche inventory well**
- **Economies of problem-solving:**
 - **Closet(s) storage design, goods & cart**
 - **Rolls of quarters for parking meters**
- **Customers pay blind-item prices/margins**
- **Capture 50-80% of the niche's "profit pool"**
- **Customer retention and testimonials go up**

Be High-Value AND Low Cost?



- Narrow FOCUS that best suits my biz. (body)
- Perfectly tailored FIT of capabilities (most efficient; no extra, unnecessary baggage)
- **EXAMPLES:**
 - Decathletes have a fair-contest agreement
 - By event: just focused, tailored & tuned players
 - Best in niche wins 50-80% of the “profit pool”
 - #2 gets most of the rest; field gets crumbs/losses

Steps to Customer Nichonomics

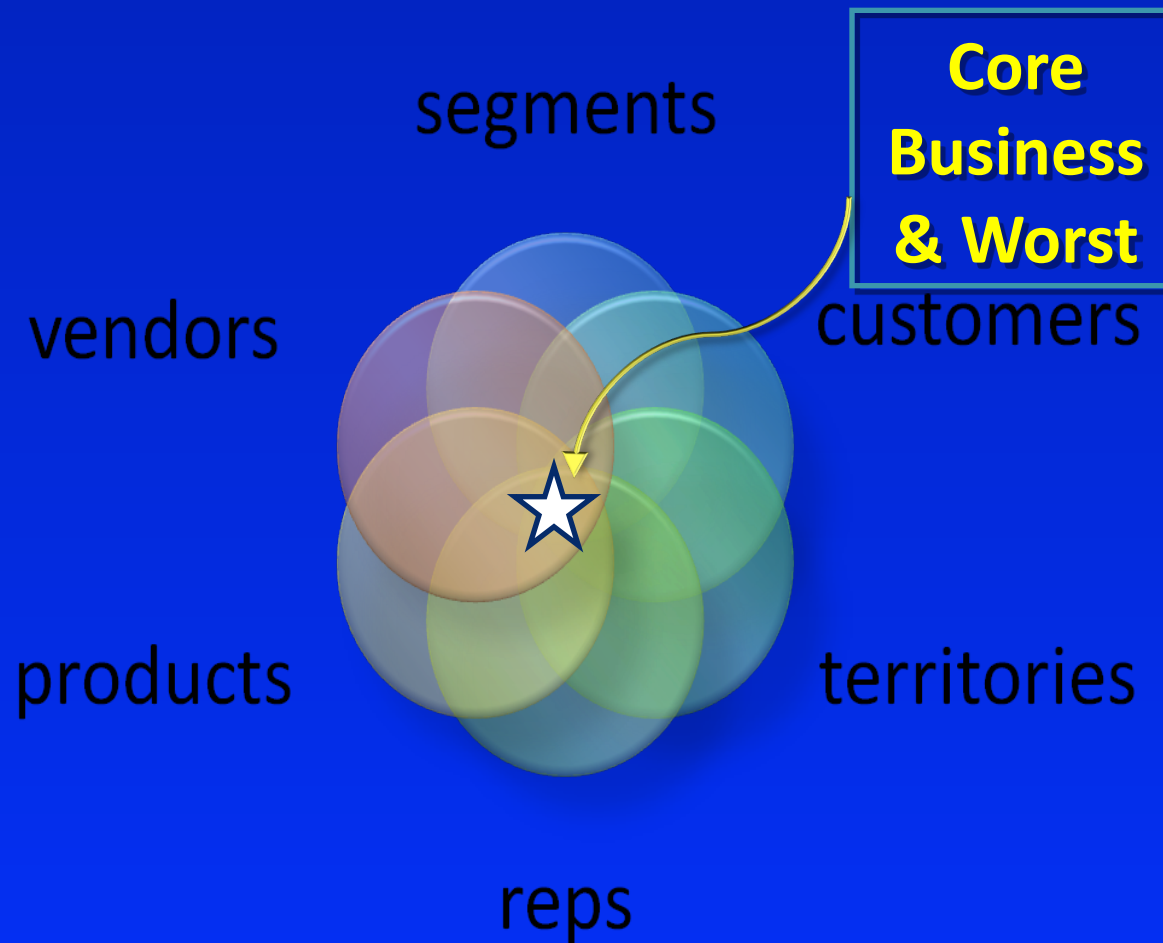
- Measure the extremes of customer/item profitability (losses)...Our intuition fails us:
 - “Thinking, Fast and Slow” by Kahneman
 - We need “line-item profit analytics” (LIPA)
- Unveil *more powerful, profit, power laws*
- Do 5-why analysis for root cause of profits
- Co-create next-level, value equation by niche
- Outsource to partners for gap needs

FN: Upgraded Power Laws?

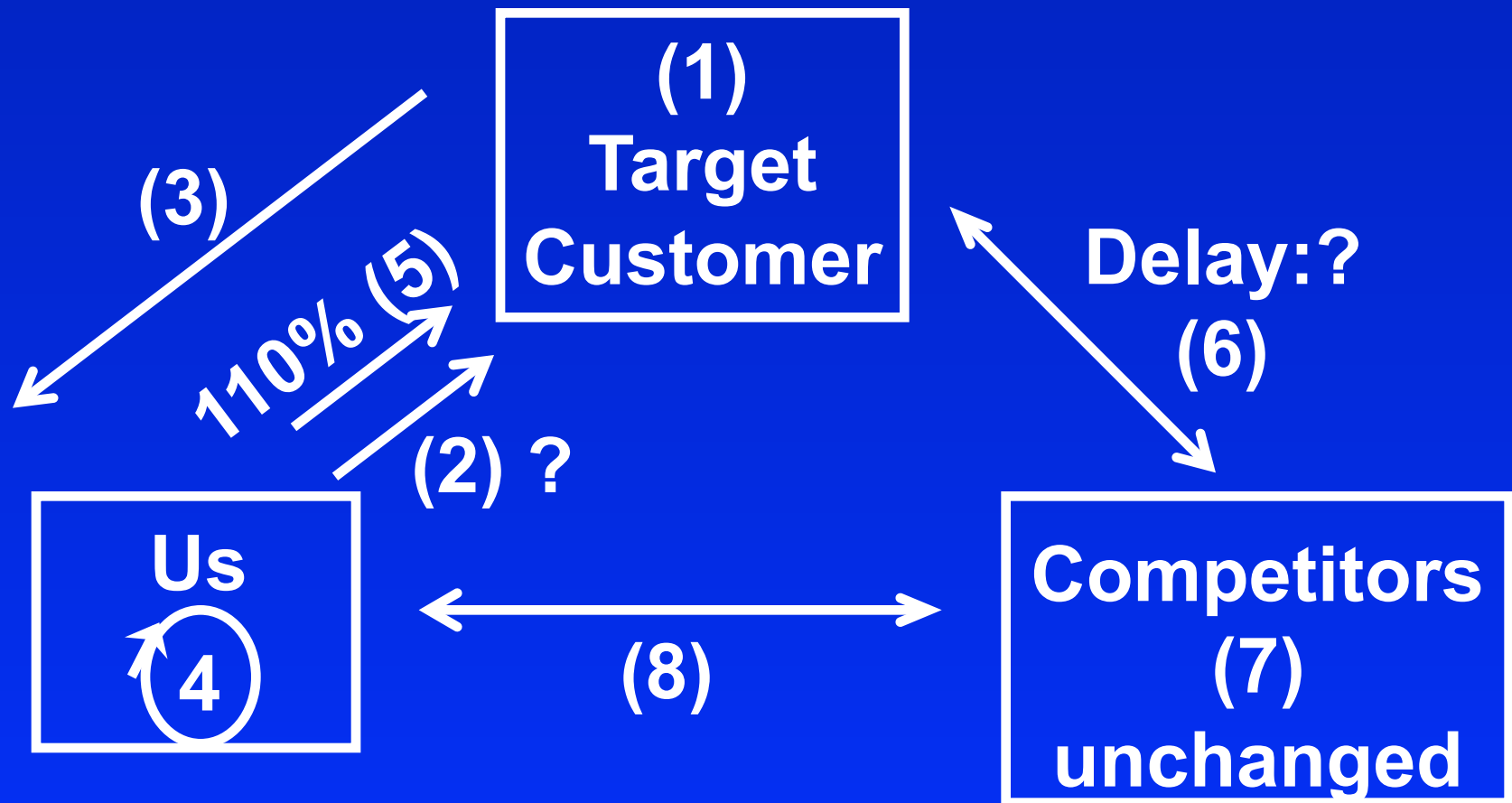


- Pareto's 20/80 (citizens/wealth) => 4/64 focus
- 1/80...movies/ticket sales; word usage
- Nature: rivers, earthquakes, city size
- 30/70...customers/gross margin dollars
- 5% of Customers => 80% of NPV profit growth
- Whale curves for:
 - Customers: 20% => 140% profits
 - Customers: 1% => (20)% profits
(3X more leverage)
 - Suppliers: 20% => 150% profits
 - Items: 5% => 500% of profits (?)

Grow/Fix Extreme Intersections?



FN: Co-Create “Next-Level, Value” Process



FN: Step 4 Changes?

Cat Needs to Bark



Consider ROBA Partnering?



Radical Outourcing of Business Activities

To do custom, reinvention of capabilities will:

- Take much longer
- Cost a lot more v. rent by the month
- Have the risk of first-time implementation
- Be less robust than what a large user base co-creates

Enabled by:

- Internet transmission costs, reliability, security
- Cloud Computing
- New startups allowing functional experts to get going

Random Examples



- Distributors get LIPA journey-tools from www.waypointanalytics.info
- Waypoint JV's with ERP vendors in specific channels
- Rural C-store Chain partners with local, organic farmers & food-service space-renters
- Inner-city math teachers: khanacademy.org

Summary Questions to Live Into(1):

- Are we or our customers in commodity hell?
- Guilty of - (1) product (2) volume (3) generic best practices (4) anything any customer wants - priority thinking?
- How to be dominant #1 in each niche/event?
- Go for 50-80% of the “profit pool”
- Highest value, lowest cost due to focus x fit

Summary (2):



- What measurably is the core”?
 - Data-free, gut-feel generalities are way off
 - Do the steps to nichonomics?
(Rapid prototyp’g)
- How can we (our customers) deploy ROBA to close the value re-creation gaps?
- Is the alternative - fine-tuning the past – going to withstand supply v. new-normal demand?

(THANK YOU! QUESTIONS?)