



Quantum Profit Gram #20

Full-line product manufacturers — from commodities to specialties — have channel problems. In the old order, a few key products generated the bulk of the line's profits throughout the channel. These cash-cows subsidized:

- low prices for niche products where cost-to-serve exceeded the realized gross profit dollars.
- new product marketing launches that kept marketing departments, trade shows, trade magazines and distributor reps busy and prosperous.
- the costs of failed products that were liquidated or were quietly accumulating losses as dead, cash-trap inventory.
- channel legacy overhead costs.

Offshore-manufactured clones of the cash-cows sold at steep discounts have ended the viability of the model. Factories that outsourced their branded cash-cows had a few years of relief, but now commodity economics reigns. With support for the cross-subsidies gone, the four beneficiaries listed above are being downsized or liquidated.

Future business solutions for these cross-subsidy challenges already exist in various channels. Consumer channels have already developed new e-marketing and supply-chain logistics for niche products: amazon.com for books; netflix.com for DVD rentals; zappos.com for shoes. (And I've seen other solutions in the 150+ other channel ecosystems I travel in.) The common element: wherever innovators are prospering, traditional-model players are imploding.

The critical question for channels about to be disrupted by post-cash-cow supply chain solutions: Who will be the innovators that embrace the new solutions in a way that re-intermediates the traditional channel partners? With the benefit of hindsight (looking at the channels that have already made the move), the first to move will accrue tremendous benefits. Transitioning early will let them steal enormous profitable market share from the traditionalists who'll stay in denial, hoping that past practices will somehow save them.

Getting accurate insight into the underlying economic problems, and developing profitable new supply-chain models will require:

- knowing the true value-chain activity costs for selling each stocked item.
- knowing how much net profit gain or loss is currently in: each line item; each supplier's line; and aggregating annual sales.
- knowing how to "innovate at the extremes" of net-profit ranking reports.

Tools like Waypoint Analytics can provide detailed economic insight for both distributors and factory distribution centers to get the jump on competitors who continue to hope the old models will come back. (See more on this at www.quantumprofitmanagement.com). And, for a range of already-existing, innovation solutions from other channels, I'd be delighted to discuss them with any interested readers. Contact me at bruce@merrifield.com.

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Channel Economics Falling Down



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