



Quantum Profit Gram #9

In this economy, aggressive price quoting to capture competitive accounts is ineffective and counter-productive. It's smarter (and easier) to grow by increasing penetration in your best accounts. Seek to sell more core items to core customers, and win new volume by attracting customers "defecting" from weakening-service competitors.

But, Aren't Reps Incented To Shoot Prices?

Driven by declining gross profit commissions, reps may try for new business by asking prospects for a chance to quote some (probably low-ball) prices. This could restore some of the rep's earnings by adding new gross profit, but can drain company resources if the new business doesn't have a profitable service model.

After receiving such quotes, customers "think about" the offer, using the time to give the existing suppliers "last look". If the incumbent (with more account knowledge) surrenders the business, be wary of the win. The rep gets his share of the incremental margin dollars. But if the CTS (Cost-to-Serve) on the new business approaches or exceeds the GP (gross profit), the company makes little or, worse, loses money on the deal. And, the incremental working capital supporting the new volume will need to come from a bank which may be pushing for reduced credit lines and higher interest rates.

Sparking a price war with desperate competitors who retaliate by shooting lower prices at your best accounts can lead to a death spiral that's difficult to disengage.

The Better Way

- Know exactly how profitable each customer is, and you'll know if and when you have room to shave prices to keep existing accounts, or win new ones.
- Make sure rep incentives are geared to Net (bottom line) Profit, which leads reps to think about minimizing both CTS for the company and TPC (total procurement cost) for the customers, leading to win-win efficiencies for both parties. Sales incentives should be tied to Net, or better still, Delta Net (or Delta PBIT (profit before interest & taxes)).
- Measurably know what your service-value equation is for each customer niche you target. This requires having strong "people engagement metrics" to achieve outstanding "service metrics" that delivers best-in-town, service value which, if well sold, will support "last look" plus one or two points.
- Measure service retention and defection activity to insure that you're winning the sales-growth game on "positive turnovers".

All these measurement tools and plays are available through Waypoint Analytic's "Quantum Profit Management Service" (QPMS) which can be up and running for any distributor in 2-3 weeks for a monthly subscription cost that will be a fraction of the delta PBIT achieved. Call for a management team demo today.

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