

“Surviving in Today’s World of Rising Costs and Shrinking Margins”

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Current Indicators

	High Performer	Poor Performer
Total Return on Assets (Before Tax and Interest)	15.0%	6.0%
Before Tax return on Net Worth	27.8%	15.4%
Net Profit Before Tax as a % of Sales	2.5%	0.6%
	High Performer	Poor Performer
Gross Margin	18.6%	16.1%
Median Sales	56.9M	84.6M
Growth Rate	8.2%	4.7%
	High Performer	Poor Performer
Total Expense (median)	15.1%	16.0%
Total PPR	52.9%	55.3%

Source-IFDA 2006 Foodservice Distributor Productivity Financial Report

Median Before Tax Return on Net Worth

1996 23.5%

1997 19.9%

1998 28.8%

1999 23.4%

2000 12.6%

2001 16.6%

2002 21.4%

2003 21.0%

2004 19.2%

2005 18.4%

Sysco—31.0%

Source: Sysco Annual Report

Median Net Profit Before Tax

1996 1.2%

1997 1.4%

1998 2.1%

1999 1.5%

2000 1.2%

2001 1.1%

2002 1.3%

2003 1.6%

2004 1.8%

2005 1.7%

Sysco—4.76%

Source: Sysco Annual Report

Median Gross Margin % of Sales

1996 16.3%

1997 16.9%

1998 17.6%

1999 17.3%

2000 17.2%

2001 16.8%

2002 17.6%

2003 18.1%

2004 16.9%

2005 17.0%

Sysco—19.3%

Source: Sysco Annual Report

Median Total Operating Expense

1996 14.8%

1997 15.3%

1998 15.4%

1999 15.8%

2000 16.0%

2001 15.9%

2002 16.1%

2003 16.4%

2004 15.2%

2005 15.1%

Sysco—14.5%

Source: Sysco Annual Report

What Do The Numbers Tell Us?

- Mixed Bag
- Significant Gaps Between Top Performers and Lower Performers in Every Facet of the Business
- Many businesses are not generating returns that are adequate to fund future growth

What Do Distributors Do?

- Independent Distributors must focus on:
 - Defining our Core Focus
 - Geography
 - Customer Types
 - Products
 - Defining our relationship with our Customer
 - Defining our Value Proposition
 - Understanding and teaching the effect of margins on Customer's Food Cost
 - Sculpting our Customer Contact team to implement our plans

Focused Management *underlying philosophy*

**We have so many activities going on that we can't do all of them
100% perfect**

Thousands of products

+ Thousands of Customers

+ Thousands of miles of geography

= Thousands of mistakes

**Fortunately, a small portion of activities make a big impact on
our business**

**If we focus our efforts correctly and do a few activities right,
we can have an extraordinary impact on business results**

Identifying “Core” Activities

Signposts

- **Objective Measures**
 - High ROI
 - High \$ Contribution
 - High Sales Volume
- **Subjective Measures**
 - Customers, competitors and vendors regard me as leading in this activity
 - Competitors use me as a point of comparison
 - When I talk about it **EVERYONE** knows what I mean

If any three of these are true, the whole organization should be focused to make all six signposts true

Focused Management

Getting Started—Focus on Extremes

Focus more time on core management

Identify what's core

- *Products*
- *Customers*
- *Geography*
- *Services*

Educate organization regarding core activities

- *What are they*
- *Why they matter*
- *What each associate can do to support them*

Price them accordingly

- *Capture the premium*

Selectively invest in one or two new core areas

Reduce time spent managing unnecessary complexity

Identify some complexity

- *Slow movers*
- *Non-contributors*
- *Duplicates/overlapping activities*

Get rid of it

- *Either fix it*
- *Or discontinue it*

Put special mechanisms in place to keep complexity from creeping in

- *New product or Customer hurdles*
- *Sales/ Customer goals*
- *Sales/ item goals*
- *Disincentives*

Segmenting Activities

	Core	Contributing	Unnecessary Complexity
Why is it?	Subset of activities that provide extraordinary results	Subset of activities that support core activities but have little impact by themselves. Activities that with investment could become core	Bulk of activities that do little to support core activities, provide virtually no financial impact, and are unlikely to ever become core activities
Why is it what it is?	<p>You have invested and been able to achieve competitive advantage</p> <ul style="list-style-type: none">• <i>Buy it better</i>• <i>Sell it better</i>• <i>Price it better</i>• <i>Service it better</i>• <i>Do it with less resources</i>	<p>You are at competitive parity or slight disadvantage</p> <ul style="list-style-type: none">• <i>You need to do it to support advantages in other areas</i>• <i>You do enough of it to be adequate but not to be extraordinary</i>	<p>You are at substantial disadvantage vs. competition</p> <ul style="list-style-type: none">• <i>Your competitor see it as core</i>• <i>You buy it poorly</i>• <i>You sell it poorly</i>• <i>You service it poorly</i>• <i>Yet it takes time and resources to support</i>

Gaining Competitive Advantage

- **Must have a unique capability such as:**
 - **Can do something the competitor cannot do**
 - **Can do the same things in less time**
 - **Can do the same things with less resources**
 - **Can do the same things better**
- **Advantage comes from**
 - **Having resources the competitor lacks**
 - **Having more experience or size than competitors**
 - **Having a unique approach to doing things**
 - **Being more focused and effective than competitors**

Pitfall—Building Cores from Scratch

- **When you start from a very low share position**
 - **Costs can be high**
 - **Experience can be low**
 - **Service can be difficult to assure**
 - **Price may be your principal sales tool**
 - **It takes a longer to gain critical mass**
- **And competitors have incentive to respond aggressively**
 - **Your weakness can be the downfall to what you are trying to achieve.**
 - **Even if you do everything right, competition will bring more challenges.**
- **Implication**
 - **Seldom invest in more than one area at a time**

Pitfall—Price Cutting in core areas

- **Cores are, by definition, high impact areas**
 - **Cutting price writes down existing margin**
 - **Cutting price to induce trial risks and broad competitive response**
 - **Cutting price ignores other areas of strength**
 - **Service**
 - **Quality**
- **Beyond some point, investing in cores becomes less productive.**
 - **As they become stronger, they have less growth opportunity**

Sales are not resources

- **Sales do bring in revenue**
- **But, sales are also commitments to use resources**
- **After meeting Customer and associates commitments, did we bring in more than we spent AND also earn an attractive return on the capital invested?**
- **Sales are only successful if they provide a net benefit to the Customer, employees and the shareholders**
- **The more effectively we manage our resources, the more likely we are to realize a net gain of resources**

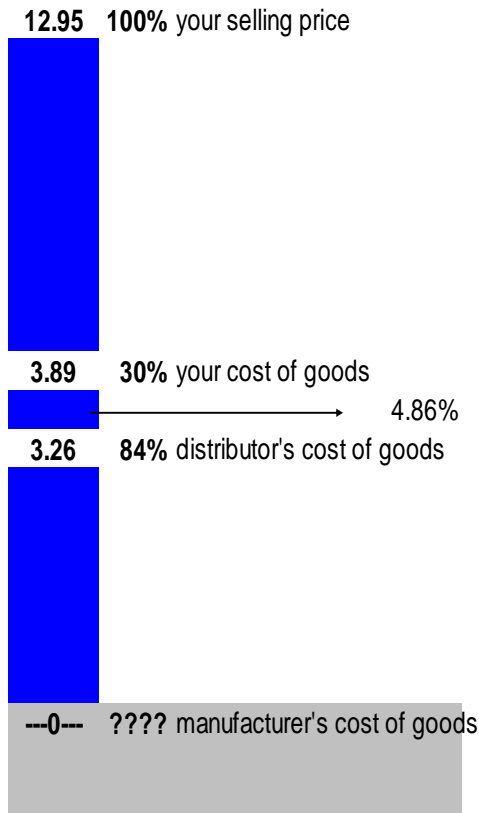
Sustainable Profit Power



Variation in Customer profitability can only be defined by a complex mix of activities

	Intentional Secondary	Competing Secondary	Primary
Product Line	Narrow Line of core products	Wide Line-based on order day needs	Wide Line-regular items based on Customer's menu
GP Opportunity	High--based on product asst.	Low-all items priced to meet competition	Avg. to low-must price key items to meet competition
Sales Time Invested	pick up orders intro new items	Fight for every item on every order	Significant-but justified by order size
Service Requirements	No stringent delivery requirements	Overservice in an attempt to build business	Frequent Deliveries-but costs spread over large orders
Net Profit	Avg. to high small orders few deliveries	Low--Small G.P. % High Service	Avg. to High large order sizes
Sustainability	Based on Product strengths	Determined by the response of your competitors	Determined by the results provided for the Customer

Meal Cost Continuum



key points

are you doing all you can with the other factors that affect your costs ???

why pit several distributors against each other to save **0.63**

why not focus on the two parts of the continuum that represent 95% of the opportunity ???

how do you do that???

- Menu Management
- Waste
- Inventory Control
- Rebates
- Contracting

%%	\$\$	%%
2%	0.07	0.50%
3%	0.10	0.76%
4%	0.13	1.01%
5%	0.16	1.26%
6%	0.20	1.51%
7%	0.23	1.76%
9%	0.29	2.27%
10%	0.33	2.52%

if one distributor was higher than another by percentage in the first column your food cost would change by the amount in the third column

- We would never suggest it is not worth reducing food cost by 2.5%,
- We are suggesting that it is much easier to manage the larger parts of the continuum
- Let us help you do that

A Brief Word on Strategy

In the excellent book, “The Discipline of Market Leaders,” a survey of 80 market leading companies across a variety concludes that no company can succeed today by trying to be all things to all people. Instead, a company must choose a Customer segment to attack and tailor its value proposition to meet that Customer segment’s needs. Three general value propositions lead to very different organizational structures and disciplines.

	Operational Excellence	Product Leadership	Customer Intimacy
Value Proposition	• Best total cost	• Best product	• Best total solution
Golden Rule	• Variety kills efficiency	• Cannibalize your success with breakthroughs	• Solve the client’s broader problem
Core Processes	• End-to-end product delivery • Customer service cycle	• Invention • Commercialization • Market exploitation	• Client acquisition & development • Solution development
Improvement Levers	• Process redesign • Continuous improvement	• Product technology • R&D cycle time	• Problem expertise • Service customization
Major Improvement Challenges	• Shift to new asset base	• Jump to new technology	• Total change in solution paradigm

Source: The Discipline of Market Leaders;2005,Michael Treacy and Fred Wiersema

Customer Intimacy Model

To be successful, we must choose our Customers carefully, deploy our best talent into the field, and use this talent to meet unique Customer needs:

- Make the Customer's Life Easier
- Provide Greater Responsiveness
- Take on Your Customer's Problem
- Empower the Customer Through Knowledge
- Manage the Customer's Complexity
- Involve the Customer in Creating Value
- Out-customize the Competition

Don't take on operationally excellent companies on their own turf.

