TOCICO CONFERENCE 2006

Achieving Breakthrough Sales at Prince Manufacturing Corporation

Presented By: Bill Rhind, Viable Vision LLC

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About Bill Rhind

Bill spent 20 years in the pharmaceutical industry leading groups in R&D, Operations, IT, and Manufacturing. Bill was first introduced to TOC 10 years ago when unimaginable speed was attained through their Clinical Pharmacy. Since then, Bill and his teams have produced extraordinary results utilizing the full breadth TOC methodologies. Two years ago, Bill partnered with Kevin & Bob Fox to found Viable Vision LLC, a company focused on bringing exceptional growth to their clients through the Theory of Constraints.

[Color Photo of Presenter]
Agenda

• Description of the Organization
• The TOC Solution
• The Approach to the Implementation
• The Results
• Lessons Learned
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Description of the Organization

- First Order for 100 Cylinders in September 1950
- Grown to 5 Manufacturing Plants in Upper Midwest
- Corporate Offices Located in North Sioux City, SD
- ISO 9001 : 2000 Certified in Engineering and Manufacturing
- They Pride Themselves in Quality Workmanship for:
  - Welded and Tie-Rod Cylinders
  - Mono Block and Sectional Valves
  - Pumps
  - Low Speed, High Torque Motors
- Engineering Department recognized for Innovative and Problem Solving Designs in Mobile Hydraulics
- Their Goal is to Exceed the Expectations of our Customers while Building Long Term and Mutually Beneficial Relationships
Description of the Organization

- Sales Channels
  - Direct
    - Large OEM
  - Distributors – 18 Master Distributors (>250 Sales People)
    - Small OEM
    - Catalog
      - Standard
      - Special
- Minimal Growth and Flat Profitability over 3 years
- <1% of U.S. Mobile Hydraulic Market Share
Why TOC...

- Frustrated with Status Quo
- Intuitively knew there had to be a better way
- Some basic knowledge…Read *The Goal*
- Discussion about the possibilities
- Willing to consider the possibility that a Viable Vision might exist
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Description of the Market

• OEM / Non-Standard Market Dominated by
  - Long Lead Times (8-12+ Weeks)
  - Unreliable Delivery (< 70% OTD)
  - Most Products << 5% of Final Selling Price

• Standard / Catalog Market
  - Commodity
  - Unavailability
  - Off shore pressure

• Highly Segmented
TOC Solution – Core Offer

• Guaranteed On-time Availability
  
  Create a decisive competitive edge by the market knowing that the company’s due date promises are remarkably reliable, when all other parameters remain the same

• Rapid Response
  
  On a considerable portion of the sales, high premiums are gained by the market knowing that the company can deliver in surprisingly short lead time
TOC Solution – Secondary Offer

• Distributors

• Vendor Managed Inventory

A decisive competitive edge is gained by providing a "partnership" that guarantees remarkable availability coupled with reduced inventories and much less hassle, when all other parameters remain the same

Reliable Availability for Standard Catalog Product

• High Volume Product
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Approach to Implementation - Sales

- Solution for Sales (SFS) Process
- Creating the Offer
- Synchronization between Ops and Sales
- Training
- Delivering the Offer
- Managing the Pipeline
- Leveraging the Offer
What Is An SFS Expert?

The SFS Expert is the TOC provider responsible for bringing the client to generate sales according the Viable Vision outlines

- Marketing offer template is adequately tailored
- Sales force is able to sell the marketing offer
- Marketing and Sales execute the plan effectively
The SFS Process for Viable Vision

**Preparation**

SFS-E develops understanding of the current reality of the VV company’s environment and prepares initial draft of design & planning documents.

**Ramp Up**

SFS-E leads the M&S Core Team to full ownership of their VV responsibilities, develops with them the M&S design & plan.

**Implementation**

SFS-E ensures the M&S function accomplishes all tasks that bring the VV company to the level of sales needed to reach the VV.
Rapid Response Offer Template

“...enough clients pay premium for committed faster deliveries...”

Make sure the marketing offer template is adequately tailored.

A glimpse...

Let’s check...

- Market segments
- Pricing model
- Penalties scheme
- Lead time tracks
- ...

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Rapid Response Offer Template

“...enough clients pay premium for committed faster deliveries...”

Make sure the sales-force is able to sell the marketing offer

You really expect clients to pay us premiums!?

You know we can get this business if we offer the shorter lead time without the premium...

Operations can barely meet the current due dates, what will be different?
Rapid Response Offer Template

“…enough clients pay premium for committed faster deliveries…”

Make sure Marketing and Sales execute the plan effectively

What should we measure?
What are the sales incentives and targets?
What is the roll out plan?
# Offer to Market – OEM

Guaranteed Delivery with Rapid Response

<table>
<thead>
<tr>
<th>Product Family</th>
<th>Standard Delivery Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welded Cylinders</td>
<td>8 Weeks</td>
</tr>
<tr>
<td>Tie Rods</td>
<td>5 Weeks</td>
</tr>
<tr>
<td>Valves</td>
<td>5 Weeks</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Price</th>
<th>Standard</th>
</tr>
</thead>
</table>

Guaranteed on time or we pay 10% penalty of selling price per day
Prince Rapid Response

• Prince commits to provide much shorter delivery lead time if the need arises

• Two tracks
  – Express $\leq$ one-half of Standard Lead Time
  – Urgent $\leq$ one-half of Express Lead Time

• Premium pricing applies

• Guaranteed on-time delivery or 50% penalty the 1st day it is late and 10% each day thereafter up to line item cost
Synchronization with Operations

• Waiting for “Go”
• Phased Approach to Market Roll out
• Availability Classification for Products
  – Green – All lead times OK
  – Yellow – Standard LT OK, Must Check Others
  – Red – Must Check for All Lead Times
  – Subordination…Ops target to move Reds to Yellow to Green prioritized on Volumes
• Feedback Loop with Ops to Ensure Flow
  – Capacity vs. Pipeline
  – “Free” Product
Additional Market Offer Opportunity due to Operational Excellence

• Buffer Management at Component Level
  - Assemble to Order
  - Faster Lead Times for Special Catalog SKUs
  - 50% Shorter LT vs. OEM
  - Rapid Response Premium Opportunities

• Buffer Management at Finished Goods
  - Reliable Availability Program
  - Guaranteed Availability (In stock up to spike quantities)
  - Order by 2:00 PM, Out same day
  - Order by 5:00 PM, Out same day at 10% Premium
## Offer to Market – Special Catalog

**Guaranteed Delivery with Rapid Response**

<table>
<thead>
<tr>
<th>Product Family</th>
<th>Current Standard Lead Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welded Cylinders</td>
<td>4 weeks</td>
</tr>
<tr>
<td>Tie Rods</td>
<td>2 weeks</td>
</tr>
<tr>
<td>Pumps</td>
<td>4 weeks</td>
</tr>
<tr>
<td>Valves</td>
<td>3 weeks</td>
</tr>
</tbody>
</table>

| Price             | Standard                  |

Guaranteed on time or we pay 10% penalty of selling price per day
# Offer to Market – Stocked

Guaranteed Delivery with Rapid Response

<table>
<thead>
<tr>
<th>Product Family</th>
<th>Availability</th>
<th>Availability</th>
</tr>
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<tbody>
<tr>
<td>Welded Cylinders</td>
<td>Order by 2:00 PM CT</td>
<td>Order between 2:00 – 5:00 PM CT</td>
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<tr>
<td>Tie Rods</td>
<td>Shipped Same Day</td>
<td>Shipped Same Day</td>
</tr>
<tr>
<td>Pumps</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valves</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Price</strong></td>
<td>Standard</td>
<td>1.1 X Standard</td>
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<tr>
<td><strong>Guarantee</strong></td>
<td>Guaranteed same day shipment</td>
<td>or we pay 20% penalty</td>
</tr>
</tbody>
</table>
Sales Training

• Identifying the Sales People
  – Inside (Order Takers), Outside, Distributors

• Training
  – Selling Product vs. Value
  – Frequently Asked Questions
  – Do’s & Don’ts
  – Practice / Role Play
  – “Tool Kit”

• Coaching

• POOGI

• Managing Doubt
  – “It’s easier to sell the customer on Rapid Response”
Flow of the Offer

- Challenges of Supply and Demand
- Criteria for a Supply Chain Solution
- Definition of Prince Program
  - Guaranteed Delivery / Availability
  - Short Lead Times if needed
  - Terms and Conditions
- Next Steps
Making the Offer

• Presentations
  – 30 Second – Scripted Dialog
  – 5 Minute – Pamphlet
  – 30 Minute – Power Point Presentation
  – Expected Outcome – Move to next phase

• Window into the organization
  – Knowledge is critical
  – Confidence is key
  – Patience is a virtue
Sales Materials
Sales Materials
Role Play – Key to Success

• Opportunity to practice new “sales” approach
• Different Scenarios to prepare
  - New customer
  - Existing Customer
  - “Spoiled” Customer
  - Different Audience Members
• Learn how to control the flow
• Develop and maintain Frequently Asked Questions
• Learn how and when to answer questions
• Learn to use the Socratic Approach
• “Tougher than the ‘Real Thing’”
Training Materials - Distributors

- Program Description
- Marketing Materials
- Do’s & Don'ts
- Role Play
- FAQ’s
Metrics in Sales

• Metrics should drive wanted behaviors

• External Sales People
  – $\Delta$ Throughput by Region
  – Premium as a percent of Sales
  – $\Delta$ Throughput by Team
  – Individual Performance

• Internal Sales People
  – New Leads
  – Premium Opportunities

• No Cap
Impact of Metrics

• Roles are clearly defined & understood
• Levers are well understood
• Sales People are focused on selling
  – Making offer > 3 days per week
  – Excited by having differentiator
  – Energized by customer’s excitement
• Working as a team
• Sales process continually improving
Marketing

• Goal

*Ensure that enough of Prince’s potential market is aware of their new programs*

• Materials/Media
  - Web
    - Prince
    - GlobalSpec
  - Direct Mailings
  - Trade Journals

• Consistency / Branding

• Want Opportunities to Find Us
Glad You Asked

We’ve had a number of people ask us how our new guarantee programs are going and if we are paying a lot of penalties. We are happy to say that we have only paid three penalties for being late in the last three months. In May we had no penalties, in June we had one and in July we had two. Prince shipped 16,098 orders on time for the last three months.
Marketing – GlobalSpec

- Web Based Engineering Search Engine
- 2.5 million registered users
- Initiated in 12/21/05
- 3,000 full contact leads generated
- Increased Prince Market Awareness
- Driving New Sales
Marketing – Trade Magazines

• Hydraulics & Pneumatics Magazine
  – H&P has a distribution of 50,524
  – Started running half page ads June 06’
Marketing – Direct Mail

• 10,000 H&P names by industry, oil, mining, construction, transportation & utilities

Still Waiting For Your Cylinders?

10% Penalty Per Day

Custom Hydraulic Cylinders & Valves
Guaranteed to Ship On Time or We’ll Pay You for Being Late

www.ontimeorwepay.com

• Engineer passed postcard to purchasing opening dialog on new multi-million dollar opportunity
Marketing – Impact

Princehyd.com Average Visits Per Day

June 2005 - Hydraulics & Pneumatics Ad Begins
January 2006 - Globaspec Begins
February 2006
March 2006
April 2006
May 2006
June 2006
June 13-20
July 2006
Marketing – Impact

- Prince is #1 on Google, Yahoo & MSN
  - These 3 search engines represent 89.6% of all web searches
  - Increased opportunities and referrals to our Master Distributors

### Prince Search Engine Rankings - August 8, 2006

<table>
<thead>
<tr>
<th>Search Term</th>
<th>Google</th>
<th>Yahoo</th>
<th>MSN</th>
<th>AOL</th>
<th>Alta Vista</th>
<th>All The Web</th>
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</tbody>
</table>
Marketing & Sales Funnel

- **Opportunity**
- **Lead**
- **Presentation**
- **Quote**
- **Approval**
- **Mfg Dwgs**
- **Prototype**
- **Test**
- **Order**
- **1st Run**
- **Transport**
- **Production**
- **Payment**

- **1-3 week**
- **days to weeks**
- **2 weeks**
- **8 weeks**
- **4 weeks**
- **days to weeks**
- **8 weeks**
- **1 week**
- **8 weeks**
- **4 weeks**
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Results

• Sales People Excited and Traveling
• Sales people have differentiator
• “Are you #@%* crazy” to “Of course”
• Offers accepted grew from <20% to >80%
• Pipeline Expanded by >10X in 6 Months
  – 70 % of current total sales
  – True opportunities, not just prospects
• Prince becoming a measuring stick
Challenges to the Core Offer

• Profits Lag
  - Long cycle due to prototype and testing phases
  - High levels of inventory / Annual Agreements

• Stated Needs vs. Actual Needs

• Spoiled Customers
  - What is a “spoiled” customer
  - Perceived “better offer” in past
    - Stocking / Will Call
    - No Premiums for Expedited Orders

• Market Constraint Broken → Back to Internal
Current Leverage Points

• Focusing Sales to Maximize Flow

• Product Mix → Impact on Operations
  – Engineering
  – Operations

• Distribution Channel
  – 250 Sales People
  – Happy → More Sales

• Market Awareness
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Lessons Learned

• Sales can never start too early
  − Preparation
  − Testing the Offer
  − Phased Rollout
  − Target Quick Wins

• Not all sales people created equal

• Identify / implement measures early

• Must have right audience – Understands the Value

• Need to be prepared for success
  − Manage the entire pipeline

• Be prepared to hear…”We need more sales”
Questions
Special Thanks To:

Prince

Solutions For Sales

Viable Vision

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