by Bruce **Merrifield**

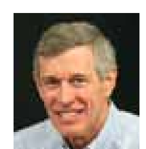
PHOTO: ANATOLII BABII

AMAZON.COM: COMPETITOR & ROLE MODEL

WINNING AGAINST AMAZON DEPENDS ON HOW LONG YOU WAIT TO ACT

On November 8 at STAFDA's Annual Convention in Phoenix, we will have some big questions to explore together in my workshop. Amazon's (AMZ) ambition and innovative capability is unprecedented and not perfectly forecastable. We can only make good-guess scenarios about how and when they will steal business from us. But, with new information, cost-to-serve math and trend analysis, we can act on our own to beat AMZ at its own customer-centric, supply-chain value innovation game. Here are some questions and facts to ponder between now and the workshop:

• Why have major-publication "experts" consistently underestimated AMZ over its 20 years of existence? A few of the company's derisive labels have been: Amazon.con ('96); Amazon.toast ("97); Amazon.bomb ('99); Amazon.org (it's a non-profit); and most recently Amazon.bubble. "AmazonSupply" recently disappeared, so distribution channels are safe! Really? Consider the following:


MERRIFIELD

WHEN AND WHERE

Bruce Merrifield of Merrifield Consulting Group will address the industry's elephant in the room, "AmazonBusiness: New Competitor & Role Model," **Sunday, Nov. 8** from **1:00 - 2:30 p.m.** and again from **3:00 - 4:30 p.m.**

How fast and affordably will AMZ be able to deliver goods to your customers in two-hours or less? What do these astounding facts and trends suggest?

AMZ has gone from 28 to 90 Distribution Centers (DCs) within the U.S. in the past five years (from 15 million to 65 million square feet) — all parked on the edges of the biggest population centers.

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The picks per sq. ft. density and efficiency have increased by 400 percent.

AMZ deployed 12,000+ warehouse robots in the past 12 months. A $20,000 bot yields $2 million in human labor value.

23 percent of the U.S. population can get same day delivery now; 29 percent by year-end 2015.

In less than two years, the USPS has gone from making negligible deliveries for AMZ to 40 percent, seven days a week for $2 per delivery: half of what AMZ pays UPS and FedEX. AMZ has multiple, additional, new-delivery experiments going on.

> DON'T TRY HARDER AT YOUR PAST BELIEFS AND PRACTICES TO FEND OFF NEW, IMPROVED SUPPLY-CHAIN REALITIES.

If AMZ can statistically increase orders per zip+4 area per hour, couldn't they deliver 20 packages to a few block area quickly and cheaply from their monster city-edge DC?

Do you think these escalating trends and innovation will stop? (Will drones really do some niche delivery work in congested cities someday?)

Why does AMZ know the Operating Profit (or loss) that they make on every customer and item and you probably don't? Gross Margin dollars and percentage (GM percent) don't reveal Net-Profit Dollars for each line-item event; we must know the Cost-To-Serve dollars (CTS$s) that each line consumes.

AMZ calculates the entire "Value Exchange Equation" (VEE) for each line item: GM$ (less) CTS$s = Profit$s. Line-item VEEs can then be summed up to higher level VEEs for: each order, customer and customer niche; SKU, product group, supplier; etc.

How fast will AMZ start to steal sales that come from your most, profitable-VEE customers and SKUs? Haven't we watched AMZ steal some portion of "PRIME Buyers" business from — book stores; Best Buy; Radio Shack; Whole Foods on nutraceuticals; etc. – while the incumbents insisted that their old-fashion service model would prevail? What repeat purchases of most-profitable, commodity tools and consumables will your most tech-savvy customers start to buy from AMZ?

Can you make a living on your most loyal, high-maintenance minnow accounts? The 50 percent that give you less than 10 percent of your GM$s and over 50 percent of your transactional activity costs? They have negative VEEs in spite of "high GM percent" average, and they aren't growing.

In the bigger picture, AMZ's overall objectives are to be: (1) "the world's most customer-centric company"; (2) with the most efficient distribution infrastructure footprint; (3) that is specifically tuned to servicing electronic orders (increasingly from mobile devices); that are (4) part of an emerging — "dash replenishment demand" — system. What are you doing to pitch CTS-math-informed, replenishment-solutions to high-VEE customers?

I'm guessing that 90 percent of distributors have watched and done nothing new in supply-chain-solution selling over the past 15-plus years. Al Bates, the founder of Profit Planning Group, which does performance analysis reports), has the database proof! Ninety percent of distributors have been averaging seven percent pre-tax Return On Total Assets (ROTA) for years while the same five percent of distributors keep averaging 20-plus percent. *Do you aspire to stay in the poor-return herd and watch AMZ reduce your ROTA to three percent and then zero?*

Or, will you get savvy about Cost-To-Serve (CTS) math to get customer-centric and partner with the right, best customers before and much better than AMZ? Don't try harder at your past beliefs and practices to fend off new, improved supply-chain realities. AMZ does not have your current customer knowledge and local service flexibility to provide semi-customized, demand-replenishment solutions for the biggest, best customers.

If any of these — questions, facts or ideas — are sufficiently provocative, then I'll look forward to seeing you in Phoenix on November 8th. **cs**

D. Bruce Merrifield is founder and president of the Merrifield Consulting Group, Miami, Fla. Since launching his firm in 1980, he has written hundreds of articles and spoken to more than 100 trade associations on distribution industry management, performance and profitability, analytics, strategy, leading edge trends and e-commerce. He has degrees from Princeton University and the Harvard Business School. He can be reached at www.merrifield.com.