

**A STRATEGIC ANALYSIS OF A  
FACILITY SUPPLY DISTRIBUTOR IN BRITISH COLUMBIA**

by

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B.A., Simon Fraser University, 1993

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## **ABSTRACT**

This paper presents a business level strategic analysis of RST Corporation's facility supply division, in British Columbia Canada.

The facility supply industry is in decline. Firms find it increasingly difficult to achieve profitability. Despite its decline, this industry will provide opportunities for a smaller number of firms with the correct strategy to take advantage of them. This paper explores the industry environment, RST's resources, current strategy, and performance. It then goes on to develop, evaluate, and recommend an altered strategy for RST.

Specifically, RST's environment and capabilities suggest it should embrace a different set of strategic options. Recommended strategic options include the placement of general managers in distribution centers, incremental customer service personnel, and appointment of individuals responsible for process improvement. These and other options, will increase costs minimally, arrest RST's trend of decline, and position it for success in the next five to ten years.

## **DEDICATION**

I dedicate this work to Lisa. Your unwavering belief in my ability to succeed in the EMBA program gave me the confidence to jump right in. Your understanding of the time commitment required, and the need for you to sacrifice many of the activities you enjoy, made this achievement possible.

## **ACKNOWLEDGEMENTS**

I would like to thank the professors and staff at SFU for putting together such a great program. Your passion for the program, and the welfare of the students made all the difference. Dr. Vining, thank you for your guidance. I not only have a strategic planning framework, but a new way of thinking.

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**CONTENTS**

APPROVAL..... i

ABSTRACT..... ii

DEDICATION ..... iii

ACKNOWLEDGEMENTS..... iv

1: AN INTRODUCTION TO RST ..... 1

    1.1 What is the Issue? ..... 1

    1.2 Resources Are Not Enough..... 2

    1.3 RST’s Decline ..... 4

    1.4 Power and Arrogance..... 5

    1.5 RST’S Structure and Purpose..... 8

        1.5.1 Ownership and Control ..... 8

        1.5.2 Corporate Organization..... 8

    1.6 Industry Supply Chain..... 9

        1.6.1 Supply Chain Pricing Dynamics ..... 10

            1.6.1.1 Regular into Stock Cost ..... 10

            1.6.1.2 Deviated Pricing ..... 11

        1.6.2 RST’s Products and Customers..... 12

            1.6.2.1 Towel and Tissue ..... 13

            1.6.2.2 Cleaning Chemicals..... 13

            1.6.2.3 Hotel Amenities..... 14

            1.6.2.4 Safety..... 15

            1.6.2.5 Janitorial Equipment ..... 15

            1.6.2.6 Food Packaging..... 16

2: KEY INDUSTRY SUCCESS FACTORS ..... 19

    2.1 Fill Rate ..... 19

    2.2 National Distribution Coverage..... 19

    2.3 Reliable Delivery Service ..... 20

        2.3.1 Efficient yet Flexible Delivery Routes..... 20

        2.3.2 Ownership of Vast Distribution Network..... 20

        2.3.3 Inventory Automation..... 21

    2.4 Exemplary Customer Service..... 21

|         |  |    |
|---------|--|----|
| 2.5     | Collectively Based Compensation .....                                      | 21 |
| 2.6     | General Managers .....   | 21 |
| 2.7     | Customer Compliance .....  | 22 |
| 2.8     | National Presence .....  | 22 |
| 2.9     | Maximize Customer Productivity .....                                       | 22 |
| 3:      | COMPETING IN THE FACILITY SUPPLY INDUSTRY.....                             | 23 |
| 3.1     | RST’S Operating Environment .....  | 23 |
| 3.1.1   | GDP Growth .....   | 24 |
| 3.1.2   | Economic Crisis 2008.....  | 24 |
| 3.1.3   | Green Movement .....   | 25 |
| 3.1.4   | Technology .....   | 26 |
| 3.2     | The Industry is Unattractive .....   | 26 |
| 3.2.1   | Threat of New Entrants .....   | 28 |
| 3.2.2   | Threat of Substitutes.....   | 29 |
| 3.2.3   | Buyers are Sophisticated.....  | 29 |
| 3.2.3.1 | Buyer Power versus Distributor Power .....                                 | 32 |
| 3.2.4   | Suppliers Long for the Good Old Days.....                                  | 33 |
| 3.3     | RST’s Competitors .....  | 33 |
| 3.4     | Conclusion: Industry Rivalry is Intense in this Unattractive Industry..... | 36 |
| 4:      | RST’s STRENGTHS AND WEAKNESSES .....                                       | 37 |
| 5:      | RST’s STRENGTHS AND WEAKNESS VIA THE VALUE CHAIN .....                     | 44 |
| 6:      | RST’S STRATEGIC OPTIONS.....   | 48 |
| 6.1     | Maintain Status Quo .....  | 49 |
| 6.2     | Expand Customer Service / Merchandising Team by Three .....                | 49 |
| 6.3     | Add Two Inventory Management Specialists.....                              | 50 |
| 6.3.1   | Maximize Inventory Turns.....  | 50 |
| 6.3.2   | Improve Fill Rate .....  | 51 |
| 6.4     | Add Compliance Resources.....  | 53 |
| 6.5     | Enhance E-Business Tools to Increase Client Productivity .....             | 55 |
| 6.6     | Hire Consultant: Redesign Process and Communication Flow.....              | 56 |
| 6.7     | Create Collective Compensation Plans.....                                  | 56 |
| 6.8     | Create General Management Position.....                                    | 56 |

|        |  |    |
|--------|--|----|
| 6.9    | Integrate Canadian and U.S. Information Technology Platforms .....     | 57 |
| 6.10   | Create COO Position.....   | 57 |
| 6.11   | Add Three Enterprise Account Sellers.....                              | 57 |
| 6.12   | Build Distribution Centers on Vancouver Island and Interior of BC..... | 58 |
| 6.13   | Enter Food Supply Business .....                                       | 58 |
| 6.14   | Add Two Inventory Analysts.....  | 59 |
| 6.15   | Summary of Strategy Options: Synergy.....                              | 60 |
| 7:     | RST's BUSINESS UNIT STRATEGY ACCORDING TO CORPORATE.....               | 61 |
| 8:     | SUMMARY OF RST'S PERFORMANTCE AND CURRENT SITUATION.....               | 63 |
| 8.1    | Qualitative Aspects.....   | 63 |
| 8.2    | Quantitative Aspects .....   | 65 |
| 9:     | RST'S DESIRED PERFORMANCE IN THE FUTURE .....                          | 67 |
| 10:    | RST's CORPORATE GOALS .....  | 68 |
| 10.1   | Goal 1: Maximize Return on Equity (ROE).....                           | 69 |
| 10.2   | Goal 2: Maximize Return on Net Assets (RONA).....                      | 69 |
| 10.3   | Goal 3: Maximize Cash Flow (DCF) .....                                 | 69 |
| 10.4   | Goal 4: Improve Customer Satisfaction.....                             | 70 |
| 10.5   | Goal 5: Maximize Employee Satisfaction .....                           | 70 |
| 10.6   | The Relative Importance of RST's Goals.....                            | 71 |
| 11:    | EVALUATING RST'S STRATEGIC ALTERNATIVES.....                           | 71 |
| 11.1   | Predicted Outcomes of Strategic Alternatives.....                      | 72 |
| 11.1.1 | Status Quo .....   | 72 |
| 11.1.2 | Add Three Customer Service / Merchandisers .....                       | 73 |
| 11.1.3 | Enhance E-Business Tools to Increase Client Productivity.....          | 74 |
| 11.1.4 | Hire Consultant: Redesign Process and Communication Flow.....          | 75 |
| 11.1.5 | Create Collective Compensation Plans.....                              | 75 |
| 11.1.6 | Create General Management Position.....                                | 76 |
| 11.1.7 | Integrate Canadian and U.S. Information Technology Platforms .....     | 77 |
| 11.1.8 | Add Three Enterprise Account Sellers.....                              | 77 |
| 11.1.9 | Add Two Inventory Analysts.....  | 78 |
| 11.2   | Summary: Predicted Impacts of RST's Strategic Alternatives .....       | 80 |
| 11.3   | Valuing and Ranking the Alternatives .....                             | 80 |



12: RECOMMENDATION..... 81

**FIGURES:**

Figure 1: Supply Chain Diagram for Facility Supply Industry..... 12  
 Figure 2: Hand Towel Dispensers ..... 13  
 Figure 3: Cleaning Chemicals & Dispensers..... 14  
 Figure 4: Hotel Amenities ..... 15  
 Figure 5: Safety Products..... 15  
 Figure 6: Janitorial Equipment..... 16  
 Figure 7: Food Packing Products ..... 17  
 Figure 8: Michael Porter's Five Forces..... 27  
 Figure 10: Value Chain Analysis..... 48  
 Figure 11: McKinsey Performance Matrix for RST ..... 67

**TABLES:**

Table 1: RST Product/Customer Matrix..... 18  
 Table 2: Relative Impact of RST's Strengths and Weaknesses ..... 44  
 Table 3: Predicted Outcome of Status Quo Strategy ..... 73  
 Table 4: Predicted Outcome of Adding Three Customer Service / Merchandisers ..... 74  
 Table 5: Predicted Outcome of Enhance E-Business Tools ..... 74  
 Table 6: Predicted Outcome of Hiring Consultant to Redesign Communication and Process Flows ..... 75  
 Table 7: Predicted Outcome of Collective Compensation Plans ..... 76  
 Table 8: Predicted Outcome of Create General Manger Position ..... 77  
 Table 9: Predicted Outcome of Integrating Canadian and U.S. Information Technology Platforms ..... 77  
 Table 10: Predicted Outcome of Adding Three Enterprise Account Sellers ..... 78  
 Table 11: Predicted Outcome of Adding Two Inventory Analysts ..... 79  
 Table 12: Weighted Rank of Alternatives..... 81

## **1: AN INTRODUCTION TO RST**

### **1.1 What is the Issue?**

RST Corporation (RST) is a distributor of facility supplies, packaging products, fine paper, and wide format printing machines. This paper will focus on the facility supply segment of RST in British Columbia.

The facility supply industry supplies the products necessary to keep facilities of all kinds clean, attractive, and sanitary. RST is a North American leader in the distribution of facility supply products. Sales of all its product categories globally are \$4 billion (U.S)<sup>1</sup>. RST purchases some of the highest volumes of facilities products in the industry. Towel, tissue, cleaning chemicals, garbage bags, and hotel amenities are among the largest volume products sold. RST has several exclusive distribution agreements with large manufacturers. It operates its own fleet of vehicles, and has distribution centers located in each major Canadian and U.S. city.

RST has invested in the most sophisticated logistics management software. It can receive any combination of 81,000 different products one day, and organize them into accurate customer shipments the next. Ninety-five percent of the Canadian population is within reach of next day service from RST. Its product and service offering includes industry leading e-commerce and customer integration tools. These tools go beyond the common industry tools such as online ordering. RST's customers are able to obtain precise information as to the

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<sup>1</sup> RST executive, personal communication, January 12, 2014

environmental “friendliness” of their purchase bundle. Detailed analytical reports aid the client in budgeting, and receiving efficiency. RST offers proprietary inventory management tools to its larger clients. These allow clients to use bar code scanners and software to integrate their receiving, inventory, ordering, and accounting functions better internally, and with RST.

If RST’s resources are industry leading, then what is the issue? The answer is that RST’s corporate office is confusing resources and capabilities. RST’s calculation of order fill rate below provides an example of the difficulty created by confusing resources with capabilities.

## **1.2 Resources Are Not Enough**

RST utilizes one of the most sophisticated inventory planning systems in the world. Based on the reported fill rates created by the system, RST theorizes it has a 98.2% fill rate. However, this fill rate calculation is not accurate. RST’s inventory system manages only 30% of its current product line. It does not factor lost orders into its calculations. It calculates fill rate per line of product ordered, and provides little visibility for management intervention.

With 81,000 products, calculation of fill rate can only occur on “R Status” or regularly stocked items. The ERS system only manages the top 30% of all products, and top 50% of regularly stocked items. Based on informal, customer service department calculations, the fill rate on the lower 50% of regularly stocked items is approximately 75%.

Clients phone the service department to place orders. If a product they wish to order is not available, and the client does not request a backorder, that out of stock product does not affect fill rate. If RST makes four deliveries of 25 products, and two products are missing, the fill rate is 98/100 or 98%. From the client’s perspective, the fill rate is 50%. Two of their orders

had at least one product missing. We do not recommend RST adopt the client's method of fill rate calculation. RST should however track their performance concurrently, as customers would evaluate it.

Finally, sales people often receive unexpected orders for a large amount of one product. The presence of the order should alert the automated system, or an inventory specialist. Inventory specialists are not aware of these situations until their regular review day.

Over 50% of RST's clients place their orders over the telephone. Lost orders occur when a product requested, is not available. Customer service is recording these instances in salesforce.com. However, lost orders are not part of the fill rate calculation. Salesforce.com and the inventory software are not integrated. This has led to overconfidence among inventory management leaders. It has further blocked any potential for feedback.

High level fill rate achievement is just one important capability for a distributor to possess. However, fill rate affects many other key success factors in distribution. RST's facility supply business unit in BC has two options available to build synergy between departments. First, it can lobby corporate to mandate the required improvements; second, it can take steps locally to build teamwork, trust, and synergy. We will explore both options in this analysis.

In order to understand RST's current position, it is useful to consider its recent past. RST's recent past is best described as a period of decline. RST has much in common with its competitors from this period. We will explore the factors contributing to RST's decline below.

### 1.3 RST's Decline

RST came into existence in the early 1990's. Four of the largest firms in North America merged to form RST Worldwide. RST North America (a division of RST Worldwide), manages the United States and Canada. RST soon capitalized on its scope, size, and buying power. It leveraged these strategic advantages wisely. Throughout the 1990's, the RST facility supply business unit in British Columbia (BC) thrived.

Sales grew from \$40M in 1990, to \$78M in 1996<sup>2</sup>. This represented a 60% share of the facility supply market in BC<sup>3</sup>. We were unable to collect useful information regarding the percentage of growth achieved due to merger versus organic growth. However, the increases after the merger were high double digit annually. Today, the business unit's sales are \$25M<sup>4</sup>.

The formation of RST created an organization that could supply next day service to customers from Northern BC, to Labrador, without reliance on local third party distributors. Given its power, large North American producers of towel and tissue products scrambled to grow their shares within RST. In the 1990's, manufacturers needed to grow their share within RST, if they wished to grow their share in the market at all.

During the 1990's, product innovation began to accelerate. Innovation particularly accelerated in paper towel dispensing technology. Towel and tissue manufacturers raced to differentiate themselves by designing "touch-free," proprietary dispensing systems. These systems were more sanitary, easy to use, and reduced product usage. Manufacturers correctly

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<sup>2</sup> RST executive, personal communication, February 4, 2014

<sup>3</sup> RST executive, personal communication, February 4, 2014

<sup>4</sup> RST executive, personal communication, January 6, 2014

predicted their future profitability depended on gaining first mover advantage in the touch-less dispenser market. Dispensing systems are likely to remain in place for seven years.

Additionally, the incumbent distributor has a much-improved chance of upgrading their system in the future than a competitor does of replacing the existing system<sup>5</sup>.

By 1997, RST had reached the apex of its power in the industry. It enjoyed exclusive supply agreements with two of the three largest towel and tissue manufacturers<sup>6</sup>. It had secured exclusive contracts with 60% of the largest purchasing groups in the largest customer segments. RST delivered on its promise to drive sales and market share for the manufacturers it represented. Products of all kinds filled the warehouses. Fill rate was nearly 100%. Customers were willing to pay a premium for the new dispensing technology, and the proprietary products in them.

Chapter 2 explores the flow of goods in the facility supply industry. Goods in this industry flow in a linear fashion and in one direction. The distributor is at the end of the chain, just before customers. Distributors, therefore control relationships with customers. Hence, RST was able to grant or refuse manufacturer's access to clients as it saw fit. RST extracted handsome rents from its transactions.

#### **1.4 Power and Arrogance**

RST was in a position any company would envy. Tremendous market share, terrific profitability, and a vast installation base ensuring future sales. RST hypothesized the industry's

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<sup>5</sup> Manufacturing company executive, personal communication, January 17, 2014

<sup>6</sup> Manufacturer executive, personal communication, December 13, 2013

required fixed costs would deter all firms tempted to enter. Buildings, trucks, systems, and inventory requirements would surely block entry to potential competitors. Additionally RST did not need to worry about other threats such as disruptive technologies. RST was untouchable. Nothing could go wrong.

Often power and success lead to arrogance. RST was no exception to this phenomenon. From 1993 to 1997, RST could name its price for its products. It did. RST's pricing strategy provided high returns. Others noticed.

New firms began to enter the market. However, instead of modeling their organizations after RST, they chose to carve out niches in the facility supply industry. Some created niches based on expertise in specific segments, such as health care. Other firms chose to compete with RST on level of customer service. In 1996, executives cast off from the RST merger secured financing, and opened a new operation called Enterprise Paper. Enterprise Paper was a legitimate threat.

We can infer that RST's customers in the 1990's did not buy from RST because they wanted to. They bought from RST because it was the only player of its size and scope at the time. One client referred to RST's customer service as consistently horrible<sup>7</sup>. Adjectives such as "arrogant and greedy" dominated our conversations with customers who dealt with RST during this period<sup>8</sup>. Contempt for RST was growing down the supply chain for RST. It was also migrating upwards. Worse, the seeds of contempt took root within RST itself.

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<sup>7</sup> Five interviews with customers, and customer service personnel, December 2, 2013 to January 28, 2014

<sup>8</sup> RST sales executive, personal communication, February 8, 2013

During this period, the compensation plan for sales people at RST was very rich. The sales force was paid commission only, but the percentage was high. Average performers could earn \$200K annually. RST's BC leadership loathed the rich sales compensation plan forced on it during the merger.

From 1990 to 2009, each province had its own vice president, of sales and operations. Each also had its own human resources department. This department consisted of one person in BC. This person also acted as an assistant to the vice-president. Complete power to hire fire and intimidate, was in the hands of one person. The vice president had complete authority over what was tantamount to a fiefdom. The vice president in BC created a culture of fear and mistrust. He manipulated the compensation plan through account assignments, and commission splits. Sales people earning amounts the vice president believed too high, would lose accounts to the inside sales team. He quickly terminated sales people who protested. Many of the top performing sales people during this period resigned. Every one joined a competitor. Clients began to leave RST to follow their favorite sales people<sup>7</sup>.

Competitive suppliers started to produce innovations in dispensing systems. Competitive manufacturers looking to sell their innovations were unable to gain access to RST. These firms courted RST's competitors. Additionally, RST's exclusive manufacturers began to question the wisdom of an exclusive relationship with RST. They began to offer product access to RST's competitors. It was time to hedge their bets.



## **1.5 RST'S Structure and Purpose**

### **1.5.1 Ownership and Control**

RST is a privately owned company. A large American investment firm owns fifty percent of RST. One of RST's the manufacturer's owns twenty-five percent of RST. Wealthy minority shareholders own the remaining 25%. The primary goal of ownership today is profitable growth. Ownership's ultimate goal is to make RST an attractive merger target. RST is currently in negotiations regarding a merge. The prospective firm is of similar size and scope to RST. However, each firm is dominant in opposite customer and product segments within North America. RST has a strong presence in Canada, but not in Mexico. Conversely, the other has no presence in Canada, but dominates Mexico.

### **1.5.2 Corporate Organization**

There are four strategic business units (SBU's) in RST. Therefore, the sale of every product corresponds to facility solutions, packaging, fine Paper, or wide format. Wide format sells over-sized printing machines the printing industry. These machines print objects too large for conventional printing equipment. RST's North American division consists of five geographic zones. The United States represents four zones: South West, South East, North West, and North East. Canada is a fifth zone unto itself.

Facility supply, packaging, fine paper, and wide format are present in each zone. Within each zone, the four business units have distinct sales forces, sales managers, and their own vice-president. The vice-president for each SBU in each zone, reports to his or her North American President. The four business unit presidents report to the CEO.

Customer service and operations teams reside in urban distribution centers. An on-site manager leads each these teams. Customer service and operations managers report to their respective North American zone directors. Zone directors report into one of the two North American vice presidents. The vice-presidents report to RST's CEO. Human resources, accounting, legal and credit are now shared services. Human resources, accounting, and legal retain their individual director and staff. The director reports to his or her North American vice president. The vice-president in turn reports to the CEO.

This paper's focus is the facility supply strategic business unit in British Columbia, Canada. An in depth description of the channel strategy including its current customers and products will be provided. Interaction between facility supply and its fellow business units occurs regularly. The other channels enter the discussion if relevant to the subject matter at hand.

## **1.6 Industry Supply Chain**

Below is a supply chain (flow of goods) diagram. This diagram will help explain the structure of the facility supply industry in BC. The structure and flow of goods in the facility supply is rudimentary. It flows in one direction only. We will utilize the production and sale of hand towels as an example of the typical flow of goods in the industry.

Production and sale of hand towels provides a useful example. Hand towels begin with the harvesting of trees (raw material). Freshly cut trees become wood chips, then pulp. Most paper manufacturers purchase their pulp on the global market. Different qualities of pulp form

the input for different qualities of towel products. RST and its distribution competitors vie for new customers. The ideal client for RST has the following characteristics...

- Locations able to order \$8,000 of product per month
- The ability to deliver reasonable compliance from all locations
- A need for logistical support from its distributor

### **1.6.1 Supply Chain Pricing Dynamics**

It is important to understand how RST and its competitors bid on customer supply contracts. This short section will outline how smaller distributors can spoil larger distributor's best-laid plans. Distributors negotiate their input costs from manufacturers in two ways. The first method is to leverage historical purchasing volume. The second is to secure special pricing from manufacturers for specific end user bids. Industry terms for both are "regular stock cost," and "deviated pricing."

#### **1.6.1.1 Regular into Stock Cost**

Once a distributor has negotiated its regular stocking price, sales teams use this cost as the foundation on which to bid. This price is a guide for sales people transacting with mid-size customers, or street accounts as they are referred to. Manufacturers provide additional incentives to distributors to grow annual volumes. Rebate programs are critical to the facility supply industry for three reasons. First, distributors are able to present appropriate prices to lower volume clients. Second, invoices with the low costs stay out of the market. Third, successful distributors are able to apply their manufacturer rebate dollars to strategically important large bids.

Strategically important, but low margin bids are becoming more prevalent for reasons we will explore later. RST must accurately predict the financial, and opportunity costs associated with winning, or not winning these contracts. Why are these large bids so vital?

- The geographical distribution network becomes denser
- Manufacturer rebates enhance distributor income
- Block competitors from gaining momentum with a key manufacturer
- Manufacturer training and attention remains on RST
- Manufacturers are less likely to open lines to new distributors
- More profitable items added to original bid

#### **1.6.1.2 Deviated Pricing**

Manufacturers have the power to set pricing for specific bids. For example, a large potential customer releases a tender for food service items. The manufacturers begin the process by choosing their cost levels to distributors. The manufacturer is legally obligated to release the same pricing for the tender, to all its current distributors. Hence, it is possible that a small distributor could win a very large contract with a large client, by adding very little margin to their cost. Distributors lacking the capabilities to serve these large clients have been winning these bids. Low product differentiation, high power of buyers, and importance of price in the facility supply industry enable the phenomenon.

The description above and the diagram below may appear over-simplified given the extensive range of products in facility supply. Remarkably, the flow of hand towels is directly analogous to all other products in the industry.

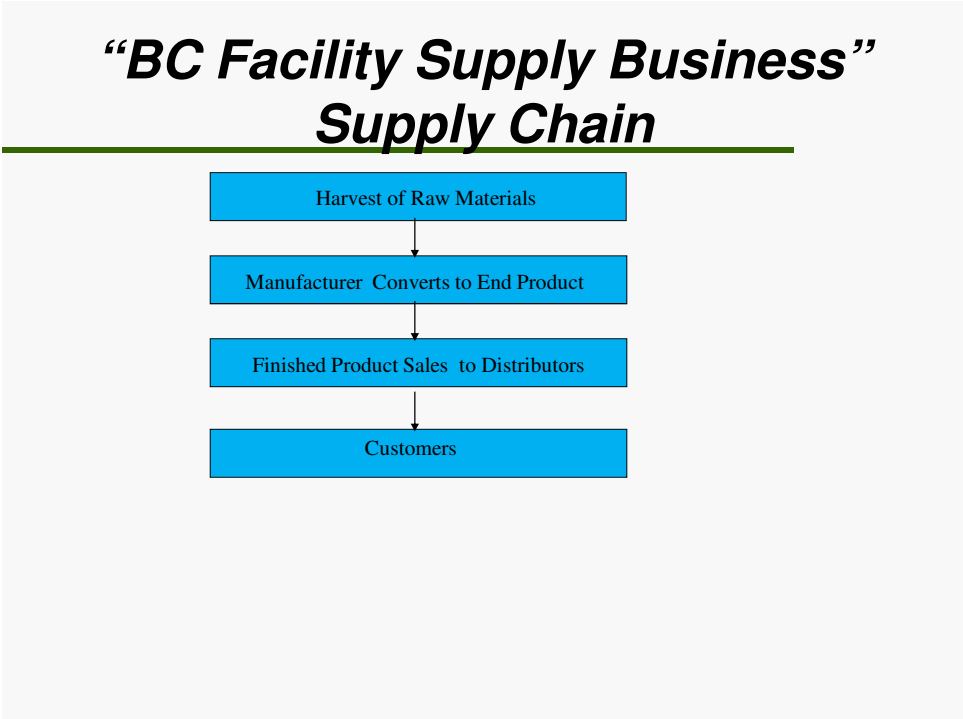


Figure 1: Supply Chain Diagram for Facility Supply Industry

### 1.6.2 RST's Products and Customers

The Product-Customer Matrix (PCM)<sup>9</sup> at the end of this chapter outlines RST's positioning strategy. It plots RST's products into categories along one axis, and its customer types along the other. It helps communicate at a glance, the relative importance of each product type by totaling the percentage of total sales each product category represents. It provides similar information to assess the relative importance of each customer type. The PCM

<sup>9</sup> A.E. Boardman and A.R. Vining, *Defining Your Business, Using Product – Customer Matrices*, (Long Range Planning, Vol. 29, No.1, 1996), 38-48.

helps identify the sales of each segment, and of which products. RST's products are...

### 1.6.2.1 Towel and Tissue

These products are the backbone of facility supply. Products include all types of paper towel, bath tissue, and facial tissue (Kleenex). Various levels of product quality exist in each product type. Below are some of the more upscale premium product dispensers.



Figure 2: Hand Towel Dispensers

### 1.6.2.2 Cleaning Chemicals

Wide varieties of clients purchase cleaning chemicals for multiple applications. Building service contractors distribute products to their staff to clean floors, office space, windows, and rest rooms. Floor care products such as waxes, strippers, and sealants are included in this category. Products include; ready to use (RTU), ready to mix (RTM), and ready to dispense (RTD). RTD products are preferred for use bigger facilities. The liquid is in bulk, and concentrated form. Ready to mix products are for facilities not large enough to justify the

expense of a dispenser install. Mixing is by hand. RTD products offer significant savings over RTM and RTU. The dispenser mixes the optimal ratio of solution and water every time reducing waste.

Product performance is therefore consistent and maximized. Mixing excess solution is costly. It can compromise product performance as much as mixing too little solution. RTU products are similar to ones purchased by individuals at retail. They are the least cost effective.



**Figure 3: Cleaning Chemicals & Dispensers**

### **1.6.2.3 Hotel Amenities**

Amenities typically account for 35% of the total facility supply budget for a hotel. The product line chosen is very important. Hotel guests expect the prestige of the amenities to be consistent with the price paid for their room. Amenities should reflect, or improve a hotel's image.



Figure 4: Hotel Amenities

### 1.6.2.4 Safety

Safety products are not core to RST's product strategy. They are an important complement to the core product segments. Facility supply sells most of its safety products to customers involved in food preparation, and management of high traffic venues. Gloves are the largest selling item in the category.



Figure 5: Safety Products

### 1.6.2.5 Janitorial Equipment

Capabilities related to the supply and service of janitorial equipment to building service contractors (BSC's) are important. These capabilities round out most large distributor's product



offering. Ride on floor cleaners, carpet cleaners, and wide area vacuums greatly improve efficiency for BSC's. RST is not a leader in this product segment. Recent efforts will improve sales in this channel.



Figure 6: Janitorial Equipment

### 1.6.2.6 Food Packaging

Deli's, bakeries, and grocery stores are the primary market for this product segment. Any outlet where a consumer can purchase pre-cooked food items to go is a potential client. Product management capability is crucial for suppliers in this segment. Sales people expend vast time and effort to source the product requested by clients. For example, a large deli will enquire if RST will help it source, or design a package. RST will put its internal resources to work, searching for a suitable manufacturer. The risk of wasted effort to RST is high. RST must mitigate potentially high opportunity costs. The client may pay in advance for inventory, utilizing RST as a shipper and receiver. Conversely, RST may purchase, hold, and dispense products for an additional fee.



**Figure 7: Food Packing Products**

RST distributes these products, and countless others to the facility supply market in BC. Its customer types (segments) include building service contractors, health care facilities, property managers, schools, hotels, grocery stores, and high traffic event facilities. The potential list of clients is long. However, the categories above represent 80% of sales volume. Within each customer type, RST seeks out clients able to order sufficient volumes to reach a \$700 minimum order size.

RST is not an office products store with several vans delivering in town for a premium. RST's fleet is comprised of vehicles no smaller than 5 tons. Deliveries go to loading docks. Customer relationships often begin for the supply of one core product category significant in size to allow for orders of \$700 at a time. Tertiary products help to make order sizes more profitable. Therefore, selling more products to its current customers is a priority for RST. As mentioned above, table 1 provides in detail sales percentages of sales by product and customer type.

| Customers                    | Products          |                       |                          |                            |              |                 |                    |                          |
|------------------------------|-------------------|-----------------------|--------------------------|----------------------------|--------------|-----------------|--------------------|--------------------------|
|                              | Towel /<br>Tissue | Cleaning<br>Chemicals | Food<br>Service<br>Items | Equipment /<br>Accessories | Amenities    | Garbage<br>Bags | Safety<br>Supplies | % of Total<br>by Segment |
| Accommodations               | 7.0%              | 1.0%                  | 3.0%                     | 1.0%                       | 12.0%        | 2.0%            | 0.5%               | 26.5%                    |
| Health Care                  | 4.0%              | 4.0%                  | 5.0%                     | 4.0%                       |              | 2.0%            |                    | 19.0%                    |
| Service Contractors          | 5.0%              | 3.0%                  |                          | 8.0%                       |              | 1.0%            |                    | 17.0%                    |
| Food Service                 |                   | 1.0%                  | 3.0%                     | 3.0%                       |              | 1.0%            |                    | 8.0%                     |
| Education                    |                   | 4.0%                  | 1.0%                     |                            |              | 1.0%            |                    | 6.0%                     |
| Government                   |                   |                       | 2.0%                     |                            |              |                 |                    | 2.0%                     |
| High Traffic                 | 2.0%              | 1.0%                  | 3.0%                     |                            |              | 1.0%            |                    | 7.0%                     |
| Property Management          | 9.0%              | 3.0%                  |                          |                            |              | 2.0%            | 0.5%               | 14.5%                    |
| <b>% of Total by Product</b> | <b>27.0%</b>      | <b>17.0%</b>          | <b>17.0%</b>             | <b>16.0%</b>               | <b>12.0%</b> | <b>10.0%</b>    | <b>1.0%</b>        | <b>100.0%</b>            |

**Table 1: RST Product/Customer Matrix**

In this section, we described RST’s difficulty separating resources from capabilities. RST’s fill rate provided an illustration of a common situation. RST’s history explained its culture from the past, which to an extent remains today. Next, we will explore RST’s operating environment, and the facility supply industry in which RST competes.

## **2: KEY INDUSTRY SUCCESS FACTORS**

Predicting key success factors (KSF'S)<sup>10</sup> in the facility supply industry is a useful exercise. If we can accurately predict the factors key to success, we can recommend the means to achievement of the ends. This chapter will help to gain a better understanding of the capabilities required for success in the industry. It will further compare RST's current KSF inventory to competitors in the industry.

### **2.1 Fill Rate**

A distinct KSF for the facility supply industry in BC is fill rate. Fill rate is a simple measure of a distributor's ability to deliver the exact products and quantities a customer wishes to order. RST measures fill rate as the number of items shipped to the customer, divided by the number of items originally requested on their order.

For example;

- 4 orders ship to a client within a given month
- There are 100 products between the four orders
- 99/100 products are in stock. 99/100 products shipped
- RST calculates this fill rate as 99%

### **2.2 National Distribution Coverage**

Imagine up to 81,000 products entering and departing one 300,000 square foot warehouse. Now add in the need for a particular product received at 1:00am that must be

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<sup>10</sup> Aidan R. Vining and Lindsay Meredith, "Metachoice for Strategic Analysis," *European Management Journal*/18 no. 6 (2000): 605-618.

loaded on a truck for delivery to a customer at 7:00am. The prospect appears daunting. A successful distributor must have the ability to receive and ship its products within tight timelines such as the one described above. Large volume products are easy to manage. Industry winners flawlessly execute on that one specialty product hidden amongst the high volume items.

## **2.3 Reliable Delivery Service**

Converting customer orders into next day shipments is a complex process. Reliable delivery service is vital to success in the facility supply industry. Customers depend on products arriving on time, and matching their original request. A well run distribution center, and high fill rates are two components crucial to reliable delivery service. Efficient routing is equally vital.

### **2.3.1 Efficient yet Flexible Delivery Routes**

Distribution organizations of all kinds grapple with the challenge of building efficient delivery routes. However, efficient delivery routes are often rigid, and compromise flexibility. Distributors must strike a balance between their own cost cutting measures, and flexible delivery response.

### **2.3.2 Ownership of Vast Distribution Network**

Reliance on distribution partners in rural areas is to a distributor's disadvantage. Management oversight and technological connection between distribution centers is an advantage.

### **2.3.3 Inventory Automation**

Maximizing inventory turns is an important KSF for distributors. Excess inventory is costly to have in stock. Excess inventory puts pressure on corporate lines of credit. It limits the availability of cash for other strategic options. A distributor must also maintain its inventory levels to ensure optimal fill rates. A distributor must have a sophisticated system to manage its inventory. It must also have experienced people to make judgement calls quickly.

### **2.4 Exemplary Customer Service**

Exemplary customer service is a vital KSF for players in the facility supply industry to possess. When the client calls, someone must pick up the phone. Online ordering is one way to streamline customer ordering. However, the human touch must be easily available.

### **2.5 Collectively Based Compensation**

Compensation, and recognition plans must reward staff for mastery of their own function. They must further contain a portion based on overall business performance. This structure will help ensure individual departments (silos) will make trade-offs beneficial to other departments, and ask for nothing in return. We suspect the correct balance is 75% department, and 25% collectively focussed.

### **2.6 General Managers**

Each zone of a distributors operation must have a general manager responsible to improve communication, process flow, and teamwork between departments and business units.

## **2.7 Customer Compliance**

The term “compliance” in the facility supply industry, refers to a distributor’s ability to ensure all of a client’s locations purchase only from the authorized distributor, and only from the approved list of products. Why is compliance important to the client, and the distributor? Why is it difficult to achieve?

Large national and regional clients with many locations are looking for ways to leverage their total spend. The client often chooses its products, then its distributor. Individual site managers may, or may not adhere to the agreement. Sites ordering more expensive products off-contract reduce potential savings to their organizations. They may further bring breach of contract penalties onto their organizations. We will find below the facility supply industry is very competitive. Distributors require every dollar promised in their competitive bid calculations.

## **2.8 National Presence**

National presence means sales and distribution organizations across the country. It gives a distributor the ability to promise consistent service on national contracts with large organizations, and cooperatives. It facilitates compliance.

## **2.9 Maximize Customer Productivity**

Helping clients reduce their budgets, and making it easier to manage is an important KSF. Distributors must take the role of trusted efficiency advisor. Otherwise, the label of supplier lowest price is their only value. RST’s commitment to distribution and inventory

technology is vital in this goal. Technology upgrades in analytical tools provide sales people with the ability to report their accomplishments in this measure to clients.

We have explored RST's history, and described its current difficulties. We outlined the key success factors for distributors in the industry. The next chapter describes the nature of competition in the industry. It will explain what it is like to compete in the facility supply industry.

### **3: COMPETING IN THE FACILITY SUPPLY INDUSTRY**

In this chapter, we will examine RST's operating environment and industry in BC. We will begin by briefly describing some economic, technological, and social factors many industries today find themselves grappling with. We will then explore RST's the nature of competition in the industry. The purpose of this chapter is to explore the level of attractiveness in this industry, understand the positions of RST's competitors, and describe the intensity and nature of their rivalry.

#### **3.1 RST'S Operating Environment**

We have explored RST's history, and corporate structure. Additionally, we now understand many of the qualities a distributor must possess in order to succeed. However, many questions remain. We must ask...Is it an attractive industry? In what manner does the supply chain function? With whom does RST compete? Is the industry competitive? Are new entrants expected? Will industry rivalry intensify or slacken? To find answers, our attention now turns to RST's environment and industry.



### 3.1.1 GDP Growth

The facility supply industry in BC has historically expanded and contracted in predictable cycles. Growth and decline in the industry are consistent with the direction and degree of changes in local economic, and population growth. The Government of British Columbia predicts a 3.6% annual growth in B.C.'s economy in the next 5 years<sup>11</sup>.

B.C.'s population will grow by 1.3% per year for the next five years<sup>12</sup>. Population in the Lower Mainland will grow by 1.6%<sup>13</sup>. The Lower Mainland is home to 70% of B.C.'s 4 million residents. Therefore, Vancouver's Lower Mainland is a critical market to grow one's share as a distributor.

### 3.1.2 Economic Crisis 2008

The segment is however responding to a phenomenon spawned in 2008's economic crisis. Customers began to scrutinize every expense looking for ways to cut costs and survive. For the first time the facility supply expense was in the spotlight. Similar organizations formed purchasing associations and went to the market together. From 2008 to 2010, RST and Bunzl dominated the industry. Since 2010, other firms such as Enterprise Paper and Wood Wyant have become more logistically sophisticated. They have begun to compete for large contracts with government cooperative purchasing groups.

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<sup>11</sup> British Columbia. BC Stats, *British Columbia Population Projections 2013 – 2036*. Victoria: Ministry of Technology, Innovation, and Citizen's Services, 2013, 9-12.

<sup>12</sup> British Columbia. BC Stats, *British Columbia Population Projections 2013 – 2036*. Victoria: Ministry of Technology, Innovation, and Citizen's Services, 2013, 12-13.

<sup>13</sup> British Columbia. BC Stats, *British Columbia Population Projections 2013 – 2036*. Victoria: Ministry of Technology, Innovation, and Citizen's Services, 2013, 18-22.

The economic events of 2008 hastened the typical trend in commodity businesses toward margin compression. Since then a series of responses from the firms up and down the value chain have resulted in all out price competition for the historical products that once defined Unisource's product sales mix. Most firms still covet those products and customers. They believe if they can secure the large selling products at zero or negative EBITDA they will be able to sell other peripheral items to that client. The overall profitability of that client will then be a source of net income. This strategy is flawed. This approach is in fact not a flawed strategy. It is a flawed customer specific tactic modeled on the retail "loss leader" programs.

### **3.1.3 Green Movement**

Public concern for the environment has greatly affected the facility supply industry. British Columbians were early adopters of the movement. Greenpeace was born in B.C. David Suzuki, local celebrity and environmental crusader is a household name in B.C. well prior to Al Gore's inconvenient truth. Media attention afforded B.C.'s aboriginal people's protest of a litany of environmental infractions ensured environmentalism would endure and thrive in this province.

Municipal, provincial, and Federal governments accountable for public well being were the first stakeholders to demand a high level of environmental sustainability in the products they purchased. The facility supply industry responded with products that met, and often exceeded requirements.

Firms now strive for LEED points in order to signal their brand is one founded on sustainability. In order to achieve LEED levels from silver to platinum, firm's facilities must

conform to building and product usage requirements. Sensing a first mover advantage, companies such as eco-logo emerged. They promised safe passage through the quagmire of rules and restrictions to any firm that would conform. Compliance for the entire facility supply chain became a mandatory requirement, to remain in the industry.

Manufacturers responded with a bewildering array of products in response to the new requirements. Offerings appeared immediately claiming percentages of recycled materials utilized in production, level of recyclability after use, and ability to compost. Manufacturing processes were re-engineered to include less harmful substances. Distributors began to market based on their environmental or carbon footprint.

### **3.1.4 Technology**

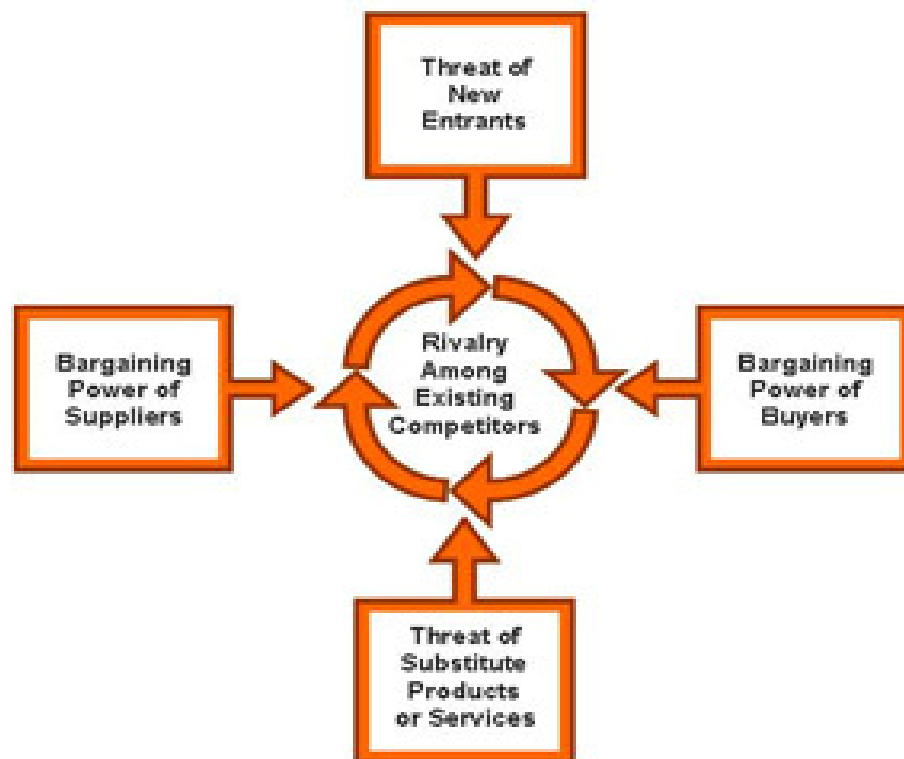
In 2008, few organizations had access to sophisticated procurement software. Today purchasing managers on the front line have access to and the knowledge to utilize all the analytical tools they need. Technology has significantly empowered buyers with information not available in the past. It has helped shift power to the side of buyers.

## **3.2 The Industry is Unattractive**

Michael Porter's Five Forces model provides a useful evaluation framework. We will use this framework to help describe the intensity of competition between RST and its competitors listed above. The model is concerned with five categories; threat of new entrants to the

industry, the threat posed by substitutes, and the respective bargaining power of buyers, and suppliers<sup>14</sup>.

Each of the four subsections below discusses one of the four squares in figure 8. The center circle represents the ever-changing hurricane type swirl created by actions, or anticipated actions of competitors, customers, suppliers, new entrants, and the threat of substitute products. The relative power of each square exponentially adds or reduces the intensity of the “storm” in the middle.



**Figure 8:** Michael Porter's Five Forces

<sup>14</sup> Michael E. Porter, *Competitive Strategy- Techniques for Analyzing Industries and Competitors* (Free Press, 1980), 40-41

### **3.2.1 Threat of New Entrants**

Entry barriers to the industry exist due to the capital investment required for entry. Significant investment in facilities, people, trucks, and systems are required to enter the market and compete on a meaningful scale. A new entrant must be able to subsist, as it builds market share sufficient economies of scale in order to compete.

Access to necessary inputs at a competitive cost adds a further layer of difficulty to potential entrants. Established players enjoy a preferential into stock price. Should a new entrant decide to compete on price, current players are able to retaliate. Two firms have recently entered the market in spite of these barriers.

American giants Staples, and Home Depot, both entered the facility supply market in BC last year. Pertinent details of these two competitor's strategies are difficult to obtain. It is useful to consider the scale, strengths, and distribution capabilities of these two firms. This will help explain what they hope to achieve.

The entry of Staples and Home Depot is not a surprise for several reasons. Both possess the warehousing and logistical expertise required to compete. Further, both have established relationships with facility supply manufacturers from their consumer businesses. We can realistically suppose entry into the market is not a crushing financial burden for either firm. Additionally, both enjoy tremendous brand recognition in the consumer industry. They hope their brand power will prove transferable to the facility supply industry.

We can infer these two firms have not entered the market to be small players. Additionally, their decisions to enter must have been partly formed on the belief their presence would deter entry from others. Both firms must have reflected on how competitors would respond to their entry. It is reasonable to assume both of these sophisticated firms accurately assessed the size of the industry.

Regardless of barriers, both firms chose to enter. Their decisions signal confidence in their belief that there is room in the market for them. Equally likely, their actions signal the belief they can make room in the industry through eviction of others.

### **3.2.2 Threat of Substitutes**

The threat of substitutes is not a concern to those competing in this industry.

### **3.2.3 Buyers are Sophisticated**

The increasing power of buyers in the industry is a pertinent consideration in the evaluation of the attractiveness of the facility supply industry in BC. The power of buying groups is the first antecedent to the price war today. The second is the utilization of third party negotiators. Third, are the market share gains made by powerful facility management companies such as The Compass Group, and Sodexo.

Cooperative purchasing, third party negotiators, and large national clients are not recent additions to the market. So what if anything has changed? The answer lies in the power these organizations now wield over their members, and their use of technological sophistication.

Health care, education, and transportation channels have consolidated purchasing power most. Acute care facilities in Western Canada have centralized under the Health-Pro agency. Their Eastern equivalents have joined the agency called Med-Buy. Health-Pro and Med-Buy competed for the right to negotiate on behalf of the health authorities through a competitive process. For distributors, losing these large NGO bids locks them out of these segments for three years.

Boards of education and transportation organizations have chosen cooperative purchasing structures. The Educational Cooperative purchasing Group of British Columbia (EDCO) negotiates contracts on behalf of 45% of the educational facilities in BC<sup>15</sup>. Founded in 1905, EDCO has just recently gained power.

The economic downturn of 2007 was a catalyst for public scrutiny into use of public funds. Organizations of all kinds began to explore ways to cut operating costs. Improvements in purchasing software provide buyers, and their organizations with improved analytical tools. Simultaneously, supply chain analysis emerged as a field of study in Universities across North America.

Governments, corporations, and NGO's are under increasing pressure to reduce waste. Their facility supply budgets are now under the microscope. The facility supply budget is minimal compared to budgets for labor, for example. RST's challenge is to explain the minimal upside to price reductions, and emphasize the greater gains possible with tools to save on labor, and total product usage.

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<sup>15</sup> EDCO executive personal communication, December 15, 2013

These same customers also began to favour software able to integrate all parts of their business. More details on products and pricing were available as systems improved. The information became visible to executive level management.

The same technology facilitated sharing of information between members of purchasing groups. It has become very simple for the head of a cooperative to collect information regarding total member spend. The internet has revolutionized the communication of potential bids. Collective purchasing groups now have ability to reach more prospective suppliers faster.

The evolution of the corporate purchasing function is analogous to the evolution of the human resources (HR) function within these same firms in the 1990's. Many HR departments began as one administrative person tasked with filling out forms. Today, human resource departments influence overall corporate strategy. Once an extension of the shipping / receiving office, the purchasing department has grown into a more central function within public and private organizations. Demand for procurement professionals has risen. University degrees in supply chain management are now available.

Increased sophistication in the field of purchasing has enabled purchasing departments to decrease their cost of goods. Additionally, purchasers can easily communicate their achievements to others. Individual members now rarely negotiate prices below what the buying group negotiated collectively.

Firms planning to enter, or remain in the facility supply industry must be mindful of the changes in buyer power. They must build resources, and develop capabilities to win contracts with these large client segments. To succeed players will need to match, or exceed the client's



level of sophistication. This will be a daunting task for most in this time of intense price competition.

### **3.2.3.1 Buyer Power versus Distributor Power**

High purchase volume of inputs is critical to overall input cost reduction for distributors. Higher annual volumes afford distributors advantage in negotiations with manufacturers. Nonetheless, a lower into stock cost is no guarantee of an advantage in public or private tender contests.

The moment a large public entity such as a health region goes to tender some important rules apply to the process. Most germane is the requirement that manufacturers provide the same pricing to every distributor. Manufacturers are not obligated to release pricing to just any distributor. The manufacturer is legally required to release pricing to all their current distributors.

Manufacturers actively court specific clients vital to their success. This strategy is useful. The manufacturer's product is usually one of many products that meet the bid requirements. However, the manufacturer's distributor of choice, may have a poor relationship with the client, or not possess the capabilities to win the tender. Worse, the distributor may be the incumbent with another supplier. Actively courting clients gives manufacturers time and information to help decide their best choice of distributor.

### **3.2.4 Suppliers Long for the Good Old Days**

One might deduce supplier power is not a decisive factor in the facility supply industry in BC. Their products are undifferentiated commodities. Virtually every one of RST's competitors has access to each manufacturer. Ironically, lack of supplier power intensifies rivalry. It does so because the past supplier power has fallen into the hands of buyers. The bottom of the supply chain has power to make the supply chain above it dance at will. The tail is wagging the dog.

### **3.3 RST's Competitors**

RST has several large competitors with similar resources and capabilities allowing them to compete across all the channels in a similar way. Before exploring RST's competitors, it is useful to note recent changes to RST. RST is beginning to implement a merge with another industry leader. The merger will not increase RST's market share in BC. The other firm has no presence in the BC. Some benefits to the RST operation in BC are conceivable. The new firm's total purchasing power is one possible source of sustainable strategic advantage. The influx of capital from the IPO may also fund the acquisition of new resources improving its strategic position. We will continue to evaluate RST, as it exists currently.

- **Bunzl**

Bunzl is a division of Bunzl Worldwide is a substantial competitor for RST. Bunzl is the leader in deli /grocery take out containers. It enjoys long-term relationships with most of the

large grocery chains. Bunzl relies on local distributors to bring its products to market in smaller cities, and rural areas. Its corporate sales team is only present in the larger urban markets.

- **Wood Wyant**

Wood Wyant is a local BC company. It specializes in the janitorial equipment, and cleaning chemical segments. Wood Wyant has two equipment showrooms in BC. Their logistics network allows them to demonstrate equipment at the client's site, and repair equipment in their facilities. Wood Wyant also manufactures its own line of cleaning chemicals. Cleaning chemicals are a smaller but very important segment for distribution firms. This distributor has incremental margin advantages as manufacturer, and distributor of its chemicals. Knowledge of chemicals and cleaning equipment is their hallmark. Their sales strategy is to win equipment bids, then supply chemicals for use in the machines.

- **Enterprise Paper**

Enterprise Paper specializes in the towel, tissue, and copy paper segments. The executives discarded in the RST merger founded Enterprise Paper. It promises a family atmosphere to its employees. Sales people are rarely if ever terminated.

- **Wespac Paper**

Wespac Paper positions itself as a national player. Sales people severed by RST formed Wespac Paper. However, it relies on a loose network of smaller local distributors to achieve the illusion of national presence. It has not secured access to many of the major manufacturers. Wespac promises prompt local service.

- **Staples Facility Supply**

Staples Facility supply is a division of Staples multi-national retail organization. It entered the facility supply market in 2012. Sales and market share data are not yet available. It leverages its sophisticated logistics network currently in place for its retail operations. Facility supply customers are able to pick up orders at local retail locations.

- **Home Depot Supply**

Home Depot Supply entered the market in 2011. Their Calgary warehouse supplies B.C. customers. Delivery delays are frequent in B.C. due to weather in the Rocky Mountains. It is unclear why Home Depot Supply is not leveraging its retail distribution network in its facility supply business.

- **Gordon Food Service (GFS)**

Gordon Food Service is the second largest food service distributor in B.C. GFS leverages its food service distribution capabilities to hotels, restaurants, high traffic venues, and catering companies, as a means to sell additional facility supply items. Its primary strategy is to leverage its scale and scope to sell facility supply items at prices lower than RST.

- **Sysco Foods**

Sysco Foods is the market leader in food products in B.C. Sysco leverages its sales volume and relationships in hotel restaurants, high traffic venues, and catering companies as a means to add offer facility supply items. It enjoys advantages of scale and scope. Incremental facility supply items added to shipments to current customers increase the cost effectiveness of each shipment.

- **Canadian Hotel Supply**

Canadian Hotel supply operates exclusively in the lodging and accommodation channel. Its core strategy is to compete on price competitiveness, via internet ordering. Local sales representation is sparse.

In the list above we note RST has several competitors of similar scale, scope and financial strength. The remaining firms take a significant share of smaller customers. Some distributors find relevance through product, and or channel specialization. The presence of food companies is blurring industry lines. Each business model has its merits.

RST however is alone in its possession of some key capabilities. It is currently the only firm of its type with a truly national logistics, and sales presence. It has the depth of knowledge and experience to battle the niche player's claims of superior product knowledge. Leveraging its facility supply presence in order to enter the food market at this time is unlikely.

### **3.4 Conclusion: Industry Rivalry is Intense in this Unattractive Industry**

The insights gained thus far in the facility supply industry suggest rivalry is increasing. Output capacity is relatively easy to adjust; capital requirements block entry and provide no easy ways to exit; competitors in the important urban centers are numerous; little collaboration occurs between competitors; switching costs are low for customers; products lack differentiation; brand identity is not valued; industry growth is low. The storm of rivalry will continue to intensify. The industry is not attractive.

#### **4: RST's STRENGTHS AND WEAKNESSES**

The next step in our evaluation is to categorize strengths and weaknesses as either a resource or capability. Tangible resources are assets such as land, trucks, capital, and distribution centers. Intangible resources include patents, goodwill, or and skilled staff. Resources are only of value if a firm can utilize them. The fundamental goal of this section is to scrutinize the types of resources and capabilities that RST can leverage for sustainable competitive advantage. The information below is from a survey of RST's executives, and managers.

Resources and capabilities are strengths, or weaknesses. Each receives a rating for its value, rareness, limitability, and sustainability. A capability is a source of strength. It endows the firm with all four measures. It is vital for a firm to possess. Additionally, if a competitor exclusively possesses the strength granting capability, it becomes a weakness via your firm's competitive advantage.

The competitive advantage and internal organizational assessment framework helps identify strengths and weaknesses, and then delves into why each is important.

Definitions are as follows:

- Value: The degree to which a resource or capability is valued by a customer if we have it. The degree of value it has to a competitor if they have it and we do not.
- Rareness: The number of competitors in possession of the resource or capability. If all our competitors possess the resource or capability, it is not a source of competitive advantage for us. It is a disadvantage if our competitor has it and we do not.

- **Limitability:** A resource or capability is an advantage if we have it and others cannot attain it. The same logic applies inversely if our competitor has it, and we have no way to get it.
- **Sustainability:** Expected time a resource or capability, will return a competitive advantage, before imitation. Evaluation made from our perspective, or our competitor's perspective.

Evaluations for each attribute. This is a valuable step the analysis. It refines the value of each attribute and the nature of the advantage it does or does not deliver.

- **Inadequate/uncompetitive:** Below the minimum to be in business
- **Adequate/unattractive:** At the minimum needed to compete at all
- **Attractive:** More value than minimum. Yet not a remarkable advantage or disadvantage
- **Potential:** Important strategic consideration justifying some attention
- **Competitive:** Obvious source of competitive advantage or disadvantage
- **Distinctive:** Compelling and cannot be imitated yet.
- **Locals and super regional's** have 70% of market and 40 % of the sweet spot.

|                              |              |                 |                     |                       |
|------------------------------|--------------|-----------------|---------------------|-----------------------|
| <b>Resources (Strengths)</b> | <b>Value</b> | <b>Rareness</b> | <b>limitability</b> | <b>Sustainability</b> |
|------------------------------|--------------|-----------------|---------------------|-----------------------|

|     |  |             |             |            |            |
|-----|--|-------------|-------------|------------|------------|
| S1  | Solutions based selling platform             | Potential   | Potential   | Potential  | Potential  |
| S2  | Liquid equity (Upon IPO)                     | Competitive | Competitive | Attractive | Attractive |
| S4  | Deep product line                            | Competitive | Potential   | Attractive | Attractive |
| S5  | Wide product line                            | Competitive | Potential   | Attractive | Attractive |
| S9  | CRM to manage pipeline properly              | Attractive  | Attractive  | Adequate   | Adequate   |
| S10 | 39 distribution centers in Canada/2 in BC    | Competitive | Competitive | Attractive | Attractive |
| S11 | 8 Sales people in BC                         | Potential   | Adequate    | Adequate   | Adequate   |
| S12 | E-commerce and tools etc.                    | Competitive | Competitive | Attractive | Attractive |
| S13 | Deal Team (Support for larger opportunities) | Competitive | Competitive | Attractive | Attractive |
| S14 | Strong national accounts team                | Competitive | Competitive | Attractive | Attractive |
| S15 | Efficient/effective warehouse management     | Competitive | Potential   | Attractive | Attractive |
| S16 | Environmental audit tool                     | Potential   | Distinctive | Attractive | Attractive |
| S17 | Client inventory mgmt. hardware & software   | Potential   | Distinctive | Attractive | Attractive |
| S18 | Sales person facility audit tool             | Potential   | Competitive | Attractive | Attractive |

|                               |              |                 |                     |                       |
|-------------------------------|--------------|-----------------|---------------------|-----------------------|
| <b>Resources (Weaknesses)</b> | <b>Value</b> | <b>Rareness</b> | <b>limitability</b> | <b>Sustainability</b> |
|-------------------------------|--------------|-----------------|---------------------|-----------------------|



|     |   |             |             |             |             |
|-----|---|-------------|-------------|-------------|-------------|
| W1  | Incentive plan based on margin \$, & fill rates | Inadequate  | Inadequate  | Inadequate  | Inadequate  |
| W2  | Positive brand perception & recognition         | Adequate    | Adequate    | Adequate    | Adequate    |
| W3  | Service network                                 | Competitive | Competitive | Competitive | Competitive |
| W4  | Sales support (merchandising, CSC).             | Adequate    | Adequate    | Adequate    | Adequate    |
| W5  | Self-reliant RFP team                           | Inadequate  | Adequate    | Adequate    | Adequate    |
| W6  | Correct number of internal support personnel    | Inadequate  | Adequate    | Adequate    | Adequate    |
| W7  | Integrated I.T. platform                        | Inadequate  | Adequate    | Adequate    | Adequate    |
| W8  | Knowledgeable Inside sales support personnel    | Adequate    | Adequate    | Adequate    | Adequate    |
| W9  | Process evaluation person                       | Inadequate  | Adequate    | Adequate    | Adequate    |
| W10 | Engaged Employees                               | Inadequate  | Adequate    | Adequate    | Adequate    |
| W11 | Sales compensation drives desired behaviors     | Inadequate  | Adequate    | Adequate    | Adequate    |
| W12 | Formal career path process                      | Inadequate  | Inadequate  | Inadequate  | Inadequate  |
| W13 | Retail store/customer pick up locations         | Attractive  | Attractive  | Attractive  | Attractive  |
| W14 | Reliable means to measure fill rate             | Inadequate  | Competitive | Competitive | Competitive |

|                                 |              |                 |                     |                       |
|---------------------------------|--------------|-----------------|---------------------|-----------------------|
| <b>Capabilities (Strengths)</b> | <b>Value</b> | <b>Rareness</b> | <b>limitability</b> | <b>Sustainability</b> |
|---------------------------------|--------------|-----------------|---------------------|-----------------------|

|     |  |             |             |             |             |
|-----|--|-------------|-------------|-------------|-------------|
| S19 | Able to drive customer compliance            | Distinctive | Distinctive | Distinctive | Distinctive |
| S20 | Internal strategic planning process          | Competitive | Adequate    | Adequate    | Adequate    |
| S21 | Rapid, reliable order response               | Competitive | Adequate    | Adequate    | Adequate    |
| S22 | E-commerce capability                        | Competitive | Attractive  | Attractive  | Attractive  |
| S23 | E-business capability                        | Competitive | Adequate    | Adequate    | Adequate    |
| S24 | Effective supplier management                | Adequate    | Adequate    | Adequate    | Adequate    |
| S25 | Economies of scope                           | Competitive | Adequate    | Adequate    | Adequate    |
| S26 | 95% of Canada next day delivery              | Competitive | Competitive | Competitive | Competitive |
| S27 | Customer product training                    | Adequate    | Adequate    | Adequate    | Adequate    |
| S28 | Environmental consulting                     | Attractive  | Adequate    | Adequate    | Adequate    |
| S29 | 100% reliant on RST for logistics in Canada  | Competitive | Competitive | Competitive | Competitive |
| S30 | Sales team has primary & secondary verticals | Potential   | Adequate    | Adequate    | Adequate    |
| S31 | Industry leading level of post sales service | Potential   | Adequate    | Adequate    | Adequate    |
| S32 | Clients dependent on RST to manage budget    | Distinctive | Competitive | Competitive | Competitive |
| S33 | Industry leading supply chain reach          | Competitive | Competitive | Competitive | Competitive |
| S34 | Ability to offer tiered offerings            | Competitive | Adequate    | Adequate    | Adequate    |

|     |  |             |             |             |             |
|-----|--|-------------|-------------|-------------|-------------|
| S35 | Ability to measure customer true ROI   | Adequate    | Competitive | Competitive | Competitive |
| S36 | Able to sell to generation Y           | Adequate    | Adequate    | Adequate    | Adequate    |
| S37 | Economies of scale                     | Competitive | Adequate    | Adequate    | Adequate    |
| S38 | Leadership cohesiveness                | Competitive | Adequate    | Adequate    | Adequate    |
| S39 | Ability to design custom packages      | Potential   | Competitive | Competitive | Competitive |
| S40 | Third party logistics provider         | Potential   | Adequate    | Adequate    | Adequate    |
| S41 | Able to offer custom assembly services | Potential   | Competitive | Competitive | Competitive |

| <b>Capabilities (Weaknesses)</b> |   | <b>Value</b> | <b>Rareness</b> | <b>Imitability</b> | <b>Sustainability</b> |
|----------------------------------|---|--------------|-----------------|--------------------|-----------------------|
| W15                              | Great competitor (above 50% win ratio)    | Inadequate   | Competitive     | Competitive        | Competitive           |
| W16                              | I.T. platforms fully integrated           | Inadequate   | Inadequate      | Inadequate         | Inadequate            |
| W17                              | Effective communication of strategy       | Inadequate   | Inadequate      | Inadequate         | Inadequate            |
| W18                              | Meaningful forecasting                    | Inadequate   | Inadequate      | Inadequate         | Inadequate            |
| W19                              | Effective recruitment and retention rates | Inadequate   | Inadequate      | Inadequate         | Inadequate            |
| W20                              | Cross selling capability                  | Attractive   | Potential       | Potential          | Potential             |

|     |   |             |             |             |             |
|-----|---|-------------|-------------|-------------|-------------|
| W21 | Smooth on boarding of new accounts            | Potential   | Potential   | Potential   | Potential   |
| W22 | Effective but not wasteful Inventory control  | Inadequate  | Inadequate  | Inadequate  | Inadequate  |
| W23 | Zero reliance on other DC's for regular stock | Attractive  | Attractive  | Attractive  | Attractive  |
| W24 | Support for sales people, more selling time   | Inadequate  | Inadequate  | Inadequate  | Inadequate  |
| W25 | Meaningful support for SBU managers           | Inadequate  | Inadequate  | Inadequate  | Inadequate  |
| W26 | Effective communication between depts.        | Inadequate  | Inadequate  | Inadequate  | Inadequate  |
| W27 | Positive guiding company culture              | Inadequate  | Inadequate  | Inadequate  | Inadequate  |
| W28 | 98% fill rate based on orders, not lines      | Competitive | Competitive | Inadequate  | Inadequate  |
| W29 | Sales people assigned to correct account type | Adequate    | Competitive | Inadequate  | Inadequate  |
| W30 | Efficient/effective management of contracts   | Inadequate  | Inadequate  | Inadequate  | Inadequate  |
| W31 | Regular workflow sequence reviews             | Inadequate  | Inadequate  | Inadequate  | Inadequate  |
| W32 | Internal workflow compliance                  | Inadequate  | Inadequate  | Inadequate  | Inadequate  |
| W33 | Departments make trade off's for greater good | Attractive  | Inadequate  | Inadequate  | Inadequate  |
| W34 | Efficient/effective pricing management        | Attractive  | Inadequate  | Inadequate  | Inadequate  |
| W35 | Balanced dead and excess inventory            | Attractive  | Inadequate  | Inadequate  | Inadequate  |
| W36 | Higher than industry average profit margins   | Inadequate  | Competitive | Competitive | Competitive |

|     |                                       |            |            |            |            |
|-----|---------------------------------------|------------|------------|------------|------------|
| W37 | Insistence of customer service mantra | Inadequate | Inadequate | Inadequate | Inadequate |
|-----|---------------------------------------|------------|------------|------------|------------|

**Table 2: Relative Impact of RST's Strengths and Weaknesses**

This chapter provided details as to the relative impact of RST's strengths and weaknesses.

## 5: RST's STRENGTHS AND WEAKNESS VIA THE VALUE CHAIN

The previous chapter sought to identify strengths and weaknesses any given distributor may currently possess. It then gave the reader a sense of how valuable each is, and in which ways. This chapter will refine the understanding further. It will highlight RST's strengths, and weaknesses. However, it will describe if it enhances or detracts from cost savings, or a firm being able to show its uniqueness. Finally, it points to the value chain location the strength or weakness affects. This chapter will explain where RST's strengths and weaknesses affect its operation, and in what ways. The table below provides the summary.

| Strength / Weakness | Type     | Description          | Potential Source of Advantage | Location on Value Chain |
|---------------------|----------|----------------------|-------------------------------|-------------------------|
| S4                  | Resource | Deep product line    | Uniqueness Driver             | Marketing & Sales       |
| S5                  | Resource | Wide product line    | Uniqueness Driver             | Marketing & Sales       |
| S10                 | Resource | Distribution Centers | Uniqueness Driver             | Marketing & Sales       |
| S12                 | Resource | E-commerce tools     | Uniqueness Driver             | Marketing & Sales       |

|     |            |  |                   |                   |
|-----|------------|--|-------------------|-------------------|
| S14 | Resource   | Strong national accounts team                | Uniqueness Driver | Marketing & Sales |
| S15 | Resource   | Effective Distribution Center Mgmt.          | Uniqueness Driver | Logistics         |
| S17 | Resource   | E-commerce tools                             | Uniqueness Driver | Marketing & Sales |
| S1  | Capability | Able to drive customer compliance            | Uniqueness Driver | Marketing & Sales |
| S3  | Capability | Rapid, reliable order response               | Uniqueness Driver | Marketing & Sales |
| S4  | Capability | E-commerce capability                        | Uniqueness Driver | Marketing & Sales |
| S7  | Capability | Economies of scope                           | Cost Driver       | Logistics         |
| S8  | Capability | 95% of Canada next day delivery              | Uniqueness Driver | Marketing & Sales |
| S9  | Capability | Customer product training                    | Uniqueness Driver | Marketing & Sales |
| S11 | Capability | 100% reliant on RST for logistics in Canada  | Uniqueness Driver | Marketing & Sales |
| S13 | Capability | Industry leading level of post sales service | Uniqueness Driver | Marketing & Sales |
| S14 | Capability | Clients dependent on RST to manage budget    | Uniqueness Driver | Marketing & Sales |
| S15 | Capability | Industry leading supply chain reach          | Cost Driver       | Marketing & Sales |
| S21 | Capability | Ability to design custom packages            | Uniqueness Driver | Marketing & Sales |

| Strength / | Type | Description | Potential Source of | Location on Value |
|------------|------|-------------|---------------------|-------------------|
|------------|------|-------------|---------------------|-------------------|

| Weakness |            | Advantage                                       |                   | Chain             |
|----------|------------|---|-------------------|-------------------|
| W1       | Resource   | Incentive plan based on margin \$, & fill rates | Uniqueness Driver | Logistics         |
| W4       | Resource   | Sales support (merchandiser, CSC).              | Uniqueness Driver | Marketing & Sales |
| W6       | Resource   | Correct number of internal support personnel    | Uniqueness Driver | Marketing & Sales |
| W7       | Resource   | Integrated I.T. platform                        | Uniqueness Driver | Marketing & Sales |
| W8       | Resource   | Knowledgeable Inside sales support personnel    | Uniqueness Driver | Marketing & Sales |
| W14      | Resource   | Reliable means to measure fill rate             | Uniqueness Driver | Marketing & Sales |
| W1       | Capability | Great competitor (above 50% win ratio)          | Uniqueness Driver | Marketing & Sales |
| W2       | Capability | I.T. platforms fully integrated                 | Uniqueness Driver | Cost Driver       |
| W3       | Capability | Effective communication of strategy             | Uniqueness Driver | Cost Driver       |
| W8       | Capability | Effective but not wasteful Inventory control    | Uniqueness Driver | Cost Driver       |
| W10      | Capability | Support for sales people, more selling time     | Uniqueness Driver | Marketing & Sales |
| W12      | Capability | Effective communication between depts.          | Uniqueness Driver | Marketing & Sales |
| W14      | Capability | 98% fill rate based on orders, not lines        | Uniqueness Driver | Marketing & Sales |
| W17      | Capability | Regular workflow sequence reviews               | Uniqueness Driver | Marketing & Sales |
| W19      | Capability | Departments make trade off's for greater good   | Uniqueness Driver | Marketing & Sales |

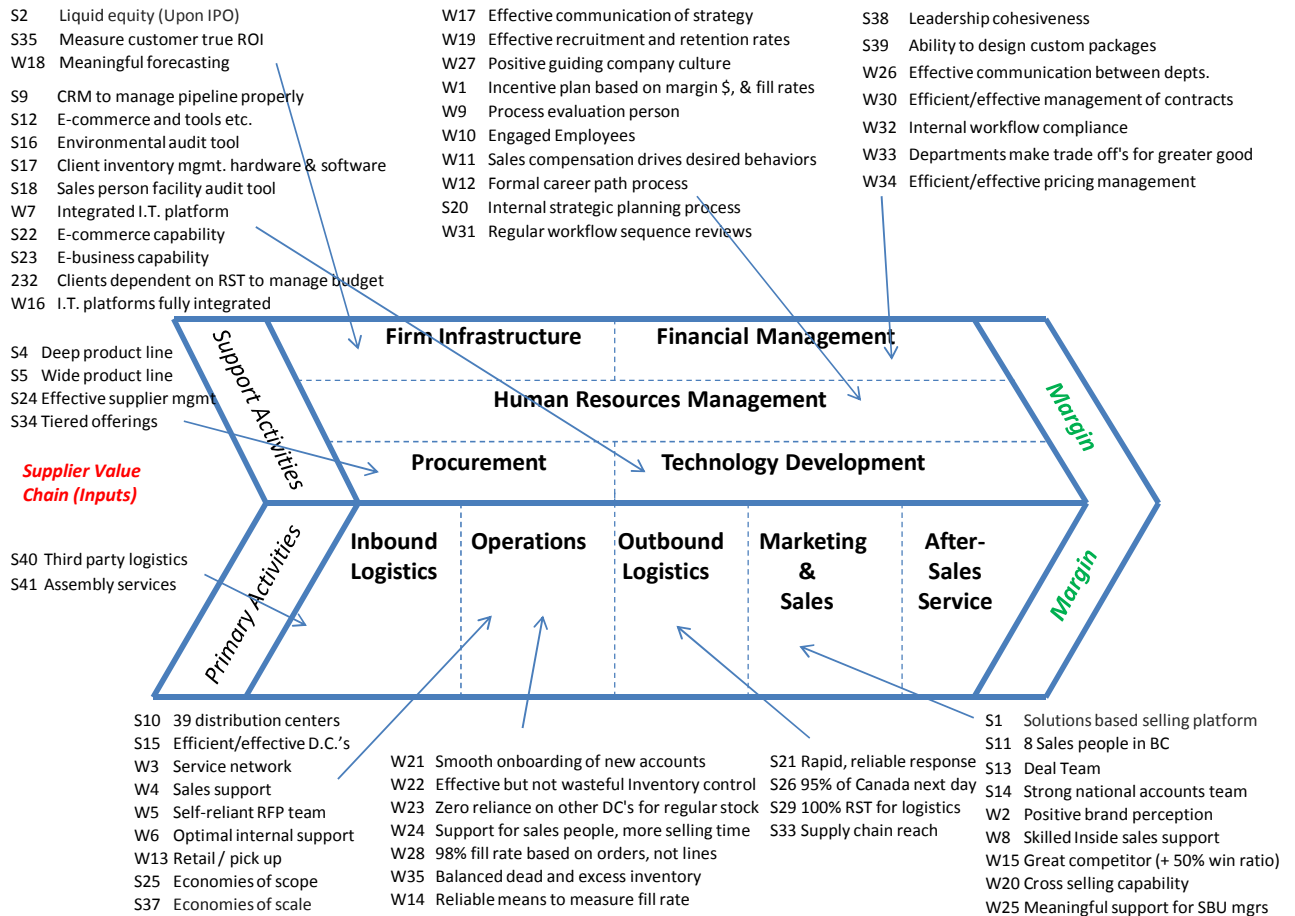
|     |            |   |                   |                   |
|-----|------------|---|-------------------|-------------------|
| W20 | Capability | Efficient/effective pricing management      | Uniqueness Driver | Marketing & Sales |
| W21 | Capability | Balanced dead and excess inventory          | Uniqueness Driver | Marketing & Sales |
| W22 | Capability | Higher than industry average profit margins | Uniqueness Driver | Marketing & Sales |
| W23 | Capability | Insistence of customer service mantra       | Uniqueness Driver | Marketing & Sales |

Robert Grant’s model provides a useful summary of where firms create value amongst the many primary and secondary activities they perform<sup>16</sup>. We plot RST’s relevant strengths and weaknesses against RST’s value chain. The results are below in figure 9. Following the review of figure 9, we will explore specific aspects of RST’s value creation activities. The analysis readily identifies areas of strength and weakness RST may address.

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<sup>16</sup> Robert M. Grant, “Contemporary Strategy Analysis,” Third Edition. *Malden: Blackwell Publishers Inc., 1998.*





**Figure 9: Value Chain Analysis**

We have summarized RST's strengths and weaknesses. We have assigned each to its corresponding section of RST's value chain. The operations section requires immediate improvement.

## 6: RST'S STRATEGIC OPTIONS

We now understand RST's competitive strengths and weaknesses, and their effect on its value chain. Until now, this chapter has been concerned with creating lists. It then provided

reference for the degree of importance on each item listed. Finally, it pointed out the areas each would affect, and in what way. Put simply, everything up to this point has been primarily background information. This chapter tightens focus onto key areas of the lists above as they relate to RST.

## **6.1 Maintain Status Quo**

The first strategic option for RST's consideration is to maintain the status quo. Maintaining the status quo would leave RST as the same resource rich, but non-synergistic firm it is today. Status quo is not a viable strategic option for RST to pursue.

## **6.2 Expand Customer Service / Merchandising Team by Three**

Exemplary customer service is a vital key success factor in the facility supply industry. The learning curve is steep in customer service. The customer service position is a vital hub in the flow of information between customers, sales people, inventory management, and distribution departments. These individuals additionally assist the sales people in securing quotes from manufacturers, and finding new products the customer's request. If this department is understaffed, sales people will spend their time looking for products instead of selling. Communication of critical inventory issues is not optimal. Clients may not place orders in a timely fashion.

RST must add three people to the current team of five British Columbia. The importance of this strategic option cannot be overstated. RST positions itself as a provider of facility solutions. This implies clients should find their productivity increases when RST is their partner. The customer service department makes solutions possible.

## **6.3 Add Two Inventory Management Specialists**

The purpose of adding two inventory management specialists is to maximize inventory turns, and improve fill rate. Below is an explanation of how the incremental staff will affect both measurements. Later, we will explore how the adaption of this strategy option will affect RST's financial, customer, and employee indicators.

### **6.3.1 Maximize Inventory Turns**

Maximizing inventory turns is an important KSF for distributors. Excess inventory is costly to have in stock. It further limits the strategic options available to organizations. RST has erred too far on the side of lean inventory. It must program seasonality into its sophisticated system. It must also increase its level of tolerance for slightly higher levels of inventory to improve fill rates. Improvements in this area will improve customer service ratings and boost confidence in sales people.

The B.C. Facility Supply business unit has achieved the lowest levels of dead and excess inventory in North America. Product turns are a very important factor in the profitability of RST. Products not turning as rapidly as expected are identified early. Sales people are responsible to clearing out excess stock. Products returned to manufacturers wherever possible. The dead and excess inventory department has saved RST millions of dollars.

The problem is the dead and excess department has ensured RST is too conservative about bringing in new products. Additionally, this group returned trial products to manufacturers, before they could gain sales momentum in the market.

RST's dead and excess inventory department has been empowered to make its own policy decisions, which have handicapped sales efforts. The parallel is virtually analogous to the operations department calling its own shots. Just when momentum builds for a new product, dead and excess inventory sent it back.

It is imperative the dead and excess inventory department be accountable to check with the sales team before returning any product. Parameters or (ground rules) must be set for the range of product types. For example, chemical dispensers must be on hand in sufficient levels to ensure readiness. Months may go by without a request, followed by an urgent request for 10. Chemical manufacturers in particular will promote distribution partners that stock their products and dispensers consistently.

### **6.3.2 Improve Fill Rate**

Fill rate is an internal key performance indicator tracked by most distributors. It is another goal that is difficult to link to profitability. A 100% fill rate may in fact be a symptom of excess inventory. In this scenario, fill rate improvement could be detrimental to profitability. Fill rate improvement will not be included below among the most important goals to be analysed. It is sufficiently important, and in need of great improvement at RST. Therefore, this goal remains part of this analysis. RST management will need to address this metric should they adapt the recommendations of this analysis.

RST calculates fill rate as the number of items shipped to a customer, divided by the number of items requested by the client. (I.e. four orders ship with a total number of 100

products between them. Ninety-nine products arrive, one doesn't. RST calculates fill rate at 99% in this scenario).

However, the process of this calculation obscures some flaws. Lost orders disregarded in this method of calculation. If a customer wishes to order, a product that is out of stock and an order is lost. The customer then calls another distributor for the missing product. The customer interaction is recorded nowhere.

RST's inventory team feels that 96% it is best in class. RST's fill rate received a poor rating in a recent survey<sup>17</sup>. The discrepancy in the two perceptions remains due to the lost orders mentioned above, and because customers calculate fill rate as the number of orders received, with zero products missing. We ascertain a different result for the example above through the lens of the customer. (I.e. four orders ship with a total number of 100 products between them. One product requires a back order. At the time of order, another product for a different order was not in stock. Ninety-nine products arrive. Client calculates fill rate as...as 2/4 orders complete. Fifty percent fill rate. RST calculates fill rate for these orders at 99/100 and hence ninety-nine percent).

RST classifies its products into category levels based on sales volumes and order frequency. The sales teams have the authority to stock new products requested by customers. Pre-approved vendors are the only sources. Products first enter the facility as special orders. Original stock must sell. Once a sales history for the product is established, the product will move up the classification matrix. The highest volume products, often (towel and tissue) are ranked as r-status (regularly stocked item). Fill rate is for regularly stocked items only.

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<sup>17</sup> RST customer communication, November 18, 2014

It would be imprudent and unreasonable to include the speculative items in the fill rate calculation. It is useful to calculate fill rates on products approaching the regularly stocked status. Additionally, management of regularly stocked items is highly automated RST. Ensuring a 99% fill rate on regularly stocked items is primarily a function of entering a different order frequency or quantity into the inventory software used. Manufacturer production difficulties make a 100% fill rate unattainable. It is imperative RST create a definition of “fill rate” so it can be accurately measured.

#### **6.4 Add Compliance Resources**

The term “compliance” in the facility supply industry, refers to a distributor’s ability to ensure all of a client’s locations purchase only from the authorized distributor, and only from the approved list of products. Why is compliance important to the client? Why is it difficult to achieve?

Large national clients with many locations are looking for ways to leverage their total spend. Site managers should comply. It is useful to understand in some situations, such as with franchisees, it may not be in the franchisee’s financial interests to comply.

Common reasons compliance efforts fail...

- Local sites prefer service of other distributor.
- Local manager views prices as excessive, but is unaware of volume rebates to his head office.
- Resistance to change distributor.
- Disdain for distributor head office entered into the agreement with.

- Franchisee resents direction to pay more with new distributor. Suspects inflated costs.
- Distributor has no national sales force to promote compliance.
- Distributor has no national distribution presence to deliver on service level promised.
- Distributor works through local sales agencies with other priorities.
- Distributor works through local “distribution partners” not fully aligned or motivated to add value to the client.
- Local sales people afraid to enforcement compliance.
- Lack of sales people to enforce compliance.
- Lack of distributor capability to report on compliance level and issues.
- Poor internal distributor communication between national accounts team and street reps.
- New distributor fails to deliver acceptable fill rate in early part of relationship.
- Onerous product training for street reps.

It takes time for local operators to understand the benefits of agreements their leaders have entered into. They are also looking for any reason to criticize the decision, especially in the first 90 days of execution. Distributor and client must treat the execution of these contracts as a project shared between two joint venture partners. A simple hand off, with vague promises and accountability between stakeholders, is sure to fail.

Many of the contracts requiring compliance are of high volume, but low margin. The task of compliance is costly, distracting, and riddled with opportunity cost for distributors. The

distributor's infrastructure may struggle to management the new contract. Investment in all the products specific to the client is large, and made in advance. The type of contract win will only be beneficial to distributors in the future who are able to...

- Minimize the costs and challenges of the points in bullets above.
- Deliver results with internal resources nationally.
- Move the conversation away from cost reduction to managing budgets more efficiently.

RST must leverage the tools created by corporate to gain advantages in compliance locally.

## **6.5 Enhance E-Business Tools to Increase Client Productivity**

Achievement of compliance is important to large enterprise clients. Compliance is a promise the client makes to the distributor in exchange for floor pricing on all the goods required. Most clients wish to deliver on their commitments. They believe they can deliver compliance. Most cannot.

RST must win large national bids with competitive pricing. It must take the role of trusted efficiency advisor. RST's commitment to distribution and inventory technology is vital in this goal. Technology upgrades in analytical tools provide sales people with the ability to report the cost savings gained for their clients.

RST's goal is to use innovation and training, to change the nature of the customer conversation to efficiency, instead of price. It is arming its teams with the tools to easily understand efficiency, measure it, and inform customers on how they can improve. Discount



price distributors only capable of moving boxes will be relegated to compete for low margin, low volume business. RST is working to be much more.

## **6.6 Hire Consultant: Redesign Process and Communication Flow**

RST has a history of operating its organization in functional silos. Communication was, and is poor between silos. Each silo pursued its own interests. Complete disregard for the benefit of other departments became the culture. For example, inventory managers were exclusively concerned with minimization of product on hand. It had no concern for clients continually running out of stock. Improved communication within the business unit will improve communication.

## **6.7 Create Collective Compensation Plans**

Key performance indicators (KPI's) must measure the core responsibilities of each department. Twenty five percent of KPI's must be common to all departments Compensation plans. This structure will ensure that individual departments will make trade-off has to benefit other departments, and ask for nothing in return.

## **6.8 Create General Management Position**

RST suffers from the absence of a person in its regions who is responsible to ensure synergy between departments, and business units. Installing a general manager into BC is a vital step to improving the manner in which the entire business operates.

## **6.9 Integrate Canadian and U.S. Information Technology Platforms**

RST's Canadian operation, and hence RST in BC are equipped with a custom designed ERP system. A central data warehouse in Atlanta collects all data. Canada uses its system to extract data from the central depository, and the United States uses its Oracle ERP. Oracle is much more compatible with the complimentary inventory and logistics software programs in place at RST. Canada's I.T. capabilities, and therefore efficiencies of process would improve if it adapted the American platform.

## **6.10 Create COO Position**

RST's BC business unit is not able to facilitate the appointment of a Chief Operating Officer for RST North America. However, it is in a position to suggest this to corporate. A COO with authority over sales, and operations would be a catalyst for change to a more synergistic environment.

## **6.11 Add Three Enterprise Account Sellers**

Hiring three additional sales people would add much needed current account, and new opportunity coverage. Hiring three more sales people, and assigning them specialties based on skill level, is a further improvement. Figure 10 provides evidence that RST has great strength via its development of sales tools and capabilities. Large, multi-location (enterprise) clients are the segment, which values RST's capabilities in this regard. Assigning the highest performers to these enterprise customers will swiftly improve the price RST may demand for its products. Additionally, these sales people will be strategic in their approach. This will help ensure long-term account retention.

## **6.12 Build Distribution Centers on Vancouver Island and Interior of BC**

RST owned and operated two incremental distribution centers up to the late 1970's. These centers were located in Victoria and Kelowna. RST closed these locations. Customer service, delivery reliability, and margin rates suffered almost immediately.<sup>18</sup> However, re-opening these costly centers may not be the optimal solution today. Increased planning prior to closure of these locations would have mitigated the negative side effects.

As discussed, RST was somewhat arrogant. Once the distribution centers closed, its strategy was to deliver to these areas once per week. Today, a loaded RST trailer is barged to Vancouver Island each morning. The island's regular driver secures it on the island side. The marginal gain in service quality from the introduction of distribution centers would not sufficiently recoup the cost of building, and operating the sales centers if re-opened.

RST has a distribution center in Prince George. No other competitor in RST's strategic group has sales representation, or a distribution center in Northern BC. This is a distinct competitive advantage.

## **6.13 Enter Food Supply Business**

Sysco and Gordon Food Service (GFS) supply food products to many of the same customers as RST. These two competitors are leveraging their presence in the supply of food, to secure the food service disposable items. RST's expertise in packaging has played a large role in allowing RST to defend its current contracts with these shared clients. However, would entering the food segment be a viable strategic option for RST? The RST executive believes it is

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<sup>18</sup> RST executive, personal communication, March 22, 2014.

not a viable strategic option. RST's vast logistical resources and capabilities would appear to position RST for entry into the food business. Yet the need for refrigerated warehouse facilities, and trucks would be a significant investment for RST.

RST would also be a small competitor in the food business. Its buying power, product knowledge, size, and scope would be minimal. Both of the competitors named above enjoy the lowest pricing from suppliers on name brand products. Additionally, each has sufficient market share to justify creation of private label brands.

The RST has not eliminated entry into the food service market completely as a possible strategic option. It views the option as a possibility in the long term, if at all. The BC business unit is not in a position to adapt this strategy at a local level on its own.

#### **6.14 Add Two Inventory Analysts**

RST's Inventory personnel are located in Montreal. RST's BC business unit however needs to request three additional members be added to this group. As RST Canada implemented the automated ERS inventory system, it reduced its number of inventory managers. The ERS system is ideal for managing high volume, predictable quantity products. However, ERS manages only 30% of RST's product models. The remaining products constitute high volume, and require a great deal of oversight from buyers. Additionally, the ERS system itself requires oversight from this same group.

We have explored the strategic options available to RST as a business unit, and as a corporation where required to add context. We surveyed a group of RST executives in order to learn the ways the corporate office believes business units should operate. The feedback below

is from a survey of RST's executive team.<sup>19</sup> Their answers do not match the strategic options above precisely. The results are in their own words. Their answers however provide insight regarding RST management's philosophy.

### **6.15 Summary of Strategy Options: A Word on Synergy**

Each one of RST's strategic options listed above has one element in common. The common element is RST's need to improve synergy between departments. Measuring synergy between departments is a subjective exercise at best. Drawing conclusions as to the effect of synergy on profitability is equally challenging. However, increasing synergy between departments is of utmost importance to RST. It is difficult to quantify the exact financial impact of the errors caused by lack of interdepartmental synergy. However, the cost is real, and impactful. A simple error, such as a salesperson not submitting a forecast, a purchaser not analysing trends, or a merchandiser searching for the wrong product creates a costly series of events. Employee and customer suffer. Correcting errors is time consuming and wrought with opportunity cost.

Improving synergy is a corporate goal of RST's executive. Within this strategic framework, synergy improvement is too vague a concept to be corporate goal. Improving synergy is more a strategic option, than a goal. Additionally, various strategic options are possible as the means to create synergy. Each option, or action, is a strategic option on its own. For this reason, the need to build synergy between departments at RST receives its own special mention in this summary. For the purpose of this analysis, synergy improvement is neither a

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<sup>19</sup> RST executive survey, January 2014

strategic option, nor a corporate goal. It is a very desirable side effect of the execution of these strategic options.

## **7: RST's BUSINESS UNIT STRATEGY ACCORDING TO CORPORATE**

As stated earlier, this paper is primarily concerned with the strategy of the facility supply business in BC. We do not discuss "corporate level strategy" per se. It is however useful to explore the business level strategic vision of those at the corporate office, as it relates to BC.

RST's executives have a strikingly similar view of strategy to the frameworks presented in this paper. The executive team has recently invested time and effort into identifying its own, and its competitor's strengths and weaknesses at the business unit level. The executive team used numerical values from one to ten to rate alternatives, instead of the adjectives in this framework. RST executives describe their strategic priority as follows...<sup>20</sup>

- Leverage national distribution presence for local gain
- Align organization to win large local and national customers
- Leverage buying power with suppliers
- Differentiate RST as only logical national distributor able to deliver compliance
- Become sticky in the affairs of clients reducing weight applied to price in negotiations
- Create a level of expertise differentiating it from new competitors.

RST participates in a range of markets with a full line of value, and premium products. As a distributor of commodity products, RST reflects on the client types (segments) it is best

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<sup>20</sup> RST executive survey, January 2014

able to service. The RST executive believes evaluating clients on their level of sophistication is now equally important to RST's positioning decisions. Client size and sophistication will determine how valuable RST's capabilities will be to any given client. National customers have needs local customers often do not. RST executives have a saying, "big buys from big."<sup>21</sup>

RST is expert in the supply of janitorial contractors based on its knowledge of products used, and the industry dynamics. However, RST's e-commerce tools, and its national footprint must be leveraged together to position it as the ideal resource for large enterprise clients.

RST regards itself as a differentiator in terms of its competitive stance<sup>22</sup>. RST leaders are cognizant of the fact the market does not yet perceive this level of differentiation. The major factor in customer decision on choice of distributor is price. Buyer power of buyers ensures price is always was rated as very high. RST's competitive stance as a differentiator is a work in progress.

RST has devoted impressive amounts of resources and effort into pushing down the cost curve in its distribution operations. It has automated its inventory management and delivery routing systems. It views these efforts as necessary, but not sufficient to ensure its profitability, or price competitiveness. These efforts to minimize costs are not a signal from RST that it will adopt a low cost strategy.

We have outlined RST's strategic options. RST management and executive provided additional feedback in their own words. We will now seek to understand RST's current

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<sup>21</sup> RST executive survey, January, 2014

<sup>22</sup> RST executive survey, January, 2014

performance, and desired future performance. In further chapters, we will make predictions for the impact of RST's most relevant strategic options.

## **8: SUMMARY OF RST'S PERFORMANCE AND CURRENT SITUATION**

### **8.1 Qualitative Aspects**

RST has improved its financial performance recently. Improvement however is not tantamount to a complete recovery. It remains a large and important firm in the industry. Its strategy of differentiation through logistical and analytical capabilities deserves much credit for the above noted improvements.

RST's internal assets position it well for the future. However, it faces significant challenges with internal processes, inventory shortages, and communication of vision. RST operates internally in silos. Compensation plans for each silo perpetuate self-interest at the expense of inter-departmental trade-offs. Contempt and suspicion dominate internal relations between departments. Acting in the interest of one's own department almost always creates a negative effect for other departments.

Externally, RST is a leader of an unattractive and low growth market. It has access to the large important brands, and products. Customer churn however is high. The landscape is one of opportunity, and potential loss. Why are larger client contracts becoming more difficult to win? What can RST do?

First, competition is becoming more intense for the larger clients. Much less, capable competitors are winning tenders, despite RST's efforts to win through positioning of its



capabilities. RST must find a way to be price competitive against price centric competitors. It must also continue to lead in value added services its competitors cannot offer.

Second, RST is concerned about the commoditization of its services. It is further concerned about the commoditization of the products it sells. The market views RST's products as commodities. It is difficult for clients to view the services offered by distributors of these products as anything other than commodities.

Third, RST must respond to changing, or blurring of industry lines. The market is mature. It is several years into the process of customer consolidation. RST has responded in kind with consolidation of its own operations. Consolidation is a prudent and necessary strategic move for RST. It gives RST better odds of success. Success in the long term will not occur from consolidation alone. RST must leverage the financial strength typically associated with consolidation to thrive, and not merely survive.

Finally, RST will need to find ways to earn rents servicing medium sized clients. These rents must not only be for RST, but for its sales people. RST must pay special attention to the following considerations...

- RST was quick to fire clients not able to order in bulk. Punitive small order charges levied on smaller clients damaged relationships. Clients began to look for alternatives. RST must empower sales people, and managers to customize solutions to ensure profitability, instead of enacting mandatory terms.
- RST must redesign its sales compensation package. Sales people spend a great deal of time managing national accounts. National account deals are often low margin. Many orders

are below the minimum threshold for payment of commission. The payment threshold is too high. RST must establish a separate threshold for national account transactions. Otherwise, sales people will neglect this customer segment.

## 8.2 Quantitative Aspects

This chapter will review and assess RST's financial performance over the last seven years in a very general manner. Access to RST's financial statements was not possible. However, interviews with executives may supplant actual statements. We can therefore construct a useful depiction of financial performance in the last seven years. We will also compare RST's performance versus market performance. Non-financial results will add context.

Small losses each year defined RST's performance in the period from 2005 to 2012. The losses were consistent with results for the industry. Interviews with executives revealed some factors contributing to the financial losses<sup>23</sup>. The losses may have been modest gains, save for some other factors.

RST leadership recognized early in this period that losing by the least amount, was actually a form of winning."<sup>24</sup> Top line revenue reductions, and customer pressures on price were to blame.

RST's cumulative loss each year was a result of revenue losses in its fine paper division. If unburdened from fine paper results the other divisions would have returned a modest profit.

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<sup>23</sup> RST executive communication, April 2, 2014

<sup>24</sup> RST executive communication, April 2, 2014

The environmental movement, rise of the internet, and 12% foreclosure rate among printing companies dramatically reduced demand for paper.

The economic recession of 2008 forced purchasers to form groups to maximize value. Scrutiny befell RST's products. Parallel pressures in the "healthy" segments exacerbated losses making each year after 2008 worse than the last. RST responded to the economic and financial chaos in a manner contradictory to its competitors. Competitors riddled with consternation began to cut operational costs. RST calmly looked for ways to invest in technology, to make its operation more efficient in the long term. It would not compromise current or future capabilities for cost savings today. It also found new ways such as MECP to measure the true costs in its operation. Enhancing infrastructure added cost, and greatly contributed to losses over this period.

In summary, the strategic choices were part of an overall strategy to become the last company standing in fine paper, and the strongest in the other three segments.

In terms of financial performance, RST is the best of a declining group. Customer and employee satisfaction are other measurements RST takes to evaluate its performance. Information is not available for RST's competitors. Facility supply in B.C. was very low in these measures<sup>25</sup>. RST has never released surveys for customers and employees. Interviews with clients and staff provide the results below.

The first employee survey occurred in 2013. The survey results from BC showed a "significant distrust for upper management."<sup>26</sup> RST executives increased their physical

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<sup>25</sup> RST staff communication, February 21, 2014

<sup>26</sup> RST staff communication, February 21, 2014

presence in B.C. in response to the survey. This has been a positive step in improving employee engagement in British Columbia with the facility supply group.

**9: RST’S DESIRED PERFORMANCE IN THE FUTURE**

We can summarize RST’s expected performance, based on its current strategy, using a GE/McKinsey Performance Matrix. RST’s current position is represented by “t”; its expected performance based on its current strategy is represented by “t+1e”; and its desired performance as “t+1d.”

The purpose of this performance matrix is to provide a useful initial impression.

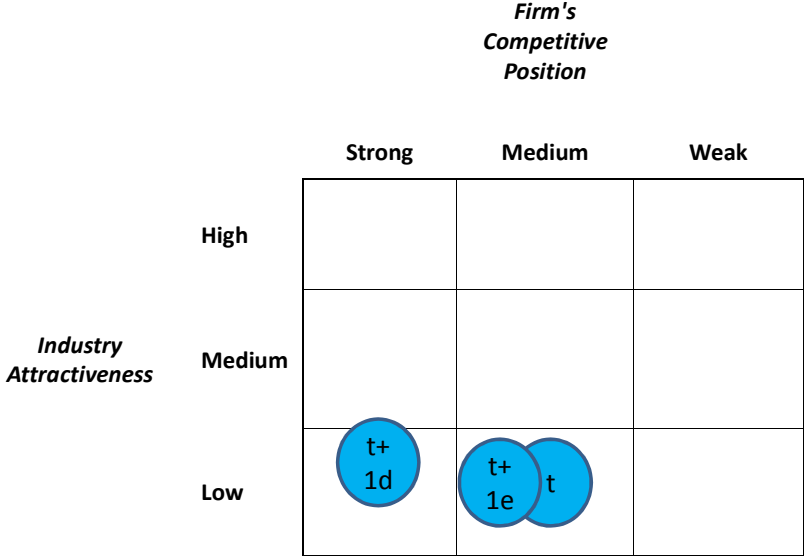


Figure 10: McKinsey Performance Matrix for RST

The framework above provides additional benefits. It allows us to identify the gap between a firm's current, and desired performance. Strategic adjustments to strategy can help close the gap between current and desired performance.

RST currently maintains a competitive position in the B.C. Facility Supply market. The market is of low attractiveness. The industry's attractiveness is not likely to improve in the next five years. Some of RST's competitive advantage is likely to erode. Appropriate steps will minimize erosion.

RST must accelerate execution of its current strategic plan. Many of the elements of this plan have only recently been documented, but not implemented. It must also add several strategic initiatives not currently included in the strategic plan. If RST does not accelerate execution, competitors may imitate some of its capabilities. Even worse, RST may rapidly lose share to the "box movers." Customers currently view RST as another "box mover."

RST is a survivor. Sufficient competitive data does not exist for a true and accurate measure of RST versus its competitors. Based on general industry knowledge it is reasonable to believe RST is among the market leaders.

## **10: RST's CORPORATE GOALS**

In this chapter, we proposed strategic alternatives for RST. We will now consider them as possible alternatives to the current one. We will predict their future merits against a

uniform and weighted list of criteria. The information shows importance given each option by RST's executive. The uniform and weighted list of criteria

### **10.1 Goal 1: Maximize Return on Equity (ROE)**

RST's primary function, as with any for profit firm, is to provide a return on the equity invested by shareholders. More specifically, shareholders wish to realize a return in excess of their other investment options. Measuring RST's strategic options in terms of their predicted effect on ROE is a very useful exercise.

### **10.2 Goal 2: Maximize Return on Net Assets (RONA)**

This goal measures RST's short- term profitability. RST shareholders are concerned about its short and long-term profitability. This measure will address the immediate future.

### **10.3 Goal 3: Maximize Cash Flow (DCF)**

RST's long- term profitability is a priority for the RST executive. RST's shareholders are concerned about long-term profitability of RST in this declining industry. The strategic options chosen by RST's executive from this analysis must address the need to improve RST's cash flow. RST's weighted average cost of capital (WACC) escalates when RST secures capital from more costly sources. RST's inventory control team plays a pivotal role in the reduction of the need for RST to borrow. Inventory availability enables sales teams to secure new sales. Conversely, excessive inventory taxes RST's credit lines. RST continually strives to find the optimal balance between these two contradictory goals.

#### **10.4 Goal 4: Improve Customer Satisfaction**

Improving customer satisfaction is one of RST management's highest priorities. Customer satisfaction surveys are a popular and somewhat objective means of measurement. Subjective measurements are equally important. Despite the difficulty in relating customer satisfaction to profitability, RST's management believes it should be included as one of the key goals below. They would like to understand how the strategic options above are likely to affect customer satisfaction.

#### **10.5 Goal 5: Maximize Employee Satisfaction**

Employee satisfaction is not difficult to measure. Surveys of employees provide a quick snap shot into the current state of affairs compared to other similar firms. Yet, a truly accurate assessment of employee satisfaction is difficult to gain from a survey. Mood in the office, willingness to make trade-offs, employees taking ownership of tasks are all observable, but difficult to quantify. Specific actions can improve the level of employee satisfaction. Team events, contests, and recognition programs are several. However, for the purposes of this paper, we are referring to fundamental drivers of employee satisfaction. Examples are, being valued, respected, working toward a common goal, presence of career paths, and compensation that motivates, among others.

High levels of employee satisfaction may result in greater levels of profitability. However, this conclusion is at best, an assumption. Given its measurability, and its importance to RST, it will be included below among the more important goals.

**10.6 The Relative Importance of RST’s Goals**

We have listed six goals below to rate RST’s performance below. We asked RST executives rate the importance of each. The total combined value of the four goals must equal 1.00. Hence, each goal is a fraction of 1.00 in this zero sum scenario. The table below summarize the details.

| <b>Goal</b>                 | <b>Weight</b> |
|-----------------------------|---------------|
| Return on Equity (ROE)      | 0.35          |
| Return on Net Assets (RONA) | 0.20          |
| Cash Flow (DCF)             | 0.20          |
| Customer Satisfaction       | 0.15          |
| Employee Satisfaction       | 0.10          |
| <b>Total</b>                | <b>1.00</b>   |

**Table 16: Relative Importance / Weight of Each Goal**

In this chapter, we provided a list of RST’s strategic alternatives. We then described the relative weights RST executives gave to each strategic alternative. Next, we will multiply each of the proposed strategies by the weighted criteria. At the conclusion of this section, each strategy will have individual and total ratings. The ratings determine the optimal strategy recommendations.

**11: EVALUATING RST’S STRATEGIC ALTERNATIVES**

The purpose of this chapter is to evaluate the strategic alternatives by utilizing the criteria defined earlier. We will predict the outcome of each strategy then rank each in order of



performance via the weighted criteria. There are two sets of strategic alternatives. The first is concerned with market positioning. The second is concerned with operational matters.

## **11.1 Predicted Outcomes of Strategic Alternatives**

To predict outcomes, we must forecast the impact each strategic alternative will have on each goal. Assessing the strategic alternatives against monetary goals will be difficult given the lack of financial information available. Yet assumptions of the directional effects are possible. We will assess the strategic alternatives forecasted effect on non-monetized goals as well. These considerations are qualitative in nature. We will evaluate each alternative against its anticipated effect on return on equity (ROE), return on net assets (RONA), cash flow (DCF), customer satisfaction, and employee satisfaction.

Each strategic option will affect revenue, gross margin, and SG&A expense. These are some of the measures subsequently determining ROE, RONA, and DCF. It is useful to include each option's affect on these contributing measures. In this manner, the causes of changes to ROE, RONA, and DCF are more apparent. As stated earlier, financial statements for RST were not attainable. Therefore, the analysis below is directional in nature.

### **11.1.1 Status Quo**

The status quo will maintain revenue growth at its current levels of 2-3%. RST is experiencing difficulty growing in the BC facility supply market. A large current market share provides a large and rich number of current clients for competitors to win from RST. Recent wins equal recent losses. Margins are under pressure as competitors submit low cost bids

attempting to win RST’s clients. To counter the threat, RST has reduced its margins. Therefore, margins in the status quo scenario will begin to decline. RST has further made inroads into many national accounts, but at low margins. SG&A expenditures would remain at current levels. Customer satisfaction will remain at current levels. Buying power and employee satisfaction would remain constant.

| Forecast Input              | Explained Effect on Strategy |
|-----------------------------|------------------------------|
| Revenue                     | Increases by 2% Per Annum    |
| Gross Margin                | Decreases                    |
| Return on Equity (ROE)      | Decreases Marginally         |
| Return on Net Assets (RONA) | Decreases Marginally         |
| SG&A Expenditure            | Remains at Current Level     |
| Discounted Cash Flow (DCF)  | Decreases Marginally         |
| Customer Satisfaction       | Decreases                    |
| Employee Satisfaction       | Decreases                    |

Table 3: Predicted Outcome of Status Quo Strategy

**11.1.2 Add Three Customer Service / Merchandisers**

By adding three customer service personnel, we expect revenue to increase immediately, but slightly. Customer service personnel will add profitable items to orders. Customer satisfaction improves with faster service. ROE, RONA, SG&A, and DCF remain the same. Employee satisfaction improves in the customer service group, and all the departments it serves.

| Forecast Input              | Explained Effect on Strategy |
|-----------------------------|------------------------------|
| Revenue                     | Increases by 2% Per Annum    |
| Gross Margin                | Improves by 0.5%             |
| Return on Equity (ROE)      | No Effect                    |
| Return on Net Assets (RONA) | No Effect                    |
| SG&A Expenditure            | No Effect                    |
| Discounted Cash Flow (DCF)  | No Effect                    |
| Customer Satisfaction       | Improves Significantly       |
| Employee Satisfaction       | Improves Significantly       |

**Table 4: Predicted Outcome of Adding Three Customer Service / Merchandisers**

### 11.1.3 Enhance E-Business Tools to Increase Client Productivity

Enhancing e-business tools to increase productivity will increase revenue and prices. Prices and revenue will not increase immediately. ROE, RONA, remain the same. SG&A and DCF improve slightly. However, e-business tools will maintain and gradually improve all the factors below. It would be difficult to credit e-business tools as the direct reason for positive results. However, those close to the customer base will understand the effects of these tools.

| Forecast Input              | Explained Effect on Strategy |
|-----------------------------|------------------------------|
| Revenue                     | Increases by 2% Per Annum    |
| Gross Margin                | Improve by 1%                |
| Return on Equity (ROE)      | No Effect                    |
| Return on Net Assets (RONA) | No Effect                    |
| SG&A Expenditure            | Increases Slightly           |
| Discounted Cash Flow (DCF)  | Increases Slightly           |
| Customer Satisfaction       | Improves                     |
| Employee Satisfaction       | Improves                     |

**Table 5: Predicted Outcome of Enhance E-Business Tools**

**11.1.4 Hire Consultant: Redesign Process and Communication Flow**

Hiring an outside “pair of eyes” to redesign process and communication flow will have many positive effects. It will improve revenue, margin, ROE, RONA, SG&A, and DCF slightly. Customer and employee satisfaction improve with process and communication improvements.

| Forecast Input              | Explained Effect on Strategy |
|-----------------------------|------------------------------|
| Revenue                     | Increases by 3% Per Annum    |
| Gross Margin                | Increase by 3%               |
| Return on Equity (ROE)      | Improve Slightly             |
| Return on Net Assets (RONA) | Improve Slightly             |
| SG&A Expenditure            | Improve Slightly             |
| Discounted Cash Flow (DCF)  | Improve Slightly             |
| Customer Satisfaction       | Improves Significantly       |
| Employee Satisfaction       | Improves Significantly       |

**Table 6: Predicted Outcome of Hiring Consultant to Redesign Communication and Process Flows**

**11.1.5 Create Collective Compensation Plans**

Collective compensation plans will help ensure individuals make judgements on how to act, which support other departments. Individuals may act in the correct ways in order to improve their bonus rewards. The presence of collective compensation plans further sends the correct signal to team members to work together. Put simply, partially collective compensation plans help management communicate the culture is changing.

All but SG&A improve with the presence of this strategic option.

| Forecast Input              | Explained Effect on Strategy |
|-----------------------------|------------------------------|
| Revenue                     | Increases by 3% Per Annum    |
| Gross Margin                | Increases                    |
| Return on Equity (ROE)      | Increases                    |
| Return on Net Assets (RONA) | Increases                    |
| SG&A Expenditure            | Remains at Current Level     |
| Discounted Cash Flow (DCF)  | Increases Slightly           |
| Customer Satisfaction       | Improves Significantly       |
| Employee Satisfaction       | Improves Significantly       |

**Table 7: Predicted Outcome of Collective Compensation Plans**

### 11.1.6 Create General Management Position

Redesigning process and communication flow, and collective compensation plans are necessary steps. The creation of a general manager role ensures someone is accountable for the predicted improvements. Therefore, the presence of a general manager is also a necessary strategic option to adopt. SG&A expenditure will increase slightly. However, the benefits to all other categories greatly outweigh the cost of the general management position.

| Forecast Input              | Explained Effect on Strategy |
|-----------------------------|------------------------------|
| Revenue                     | Increases by a 6% Per Annum  |
| Gross Margin                | Increases by a 6% Per Annum  |
| Return on Equity (ROE)      | Increases Marginally         |
| Return on Net Assets (RONA) | Increases Marginally         |
| SG&A Expenditure            | Increases Marginally         |
| Discounted Cash Flow (DCF)  | Improves Significantly       |
| Customer Satisfaction       | Improves Significantly       |
| Employee Satisfaction       | Improves Significantly       |

**Table 8: Predicted Outcome of Create General Manger Position**

### 11.1.7 Integrate Canadian and U.S. Information Technology Platforms

Integration of the Canadian and American I.T. platforms will help facilitate, and accelerate the predicted improvements in many areas. Improved communication with purchasing will assist in margin improvement. Improvements in reporting capabilities will improve customer satisfaction and revenue as clients ask RST to provide more products. Better knowledge of the prices paid for similar products, by similar customers will improve Revenue. Reduction of specialty I.T. staff employed solely for their knowledge of local systems will decrease labour costs. ROE, RONA, and DCF will all improve.

| Forecast Input              | Explained Effect on Strategy |
|-----------------------------|------------------------------|
| Revenue                     | Increases by 1% Per Annum    |
| Gross Margin                | Increases by 1% Per Annum    |
| Return on Equity (ROE)      | Increases Marginally         |
| Return on Net Assets (RONA) | Increases Marginally         |
| SG&A Expenditure            | No Effect                    |
| Discounted Cash Flow (DCF)  | Improves Marginally          |
| Customer Satisfaction       | Improves Marginally          |
| Employee Satisfaction       | Improves Significantly       |

**Table 9: Predicted Outcome of Integrating Canadian and U.S. Information Technology Platforms**

### 11.1.8 Add Three Enterprise Account Sellers

Securing contracts with clients matching RST’s ideal client profile, is a powerful way to achieve several goals. Customer satisfaction will improve. These clients value RST’s services. They are more likely to continue with RST longer. Employee satisfaction will improve. Top sales people will regard their appointment as an enterprise seller as a promotion. Enterprise type individuals tend to be more organized, and better communicators. SG&A costs increase. ROE, RONA, and DCF also improve. BC’s total sales force would be ten individuals. Total revenue improves.

| Forecast Input              | Explained Effect on Strategy |
|-----------------------------|------------------------------|
| Revenue                     | Increases by 9% per annum    |
| Gross Margin                | Increases by 9% per annum    |
| Return on Equity (ROE)      | Increases                    |
| Return on Net Assets (RONA) | Increases                    |
| SG&A Expenditure            | Increases                    |
| Discounted Cash Flow (DCF)  | Increases                    |
| Customer Satisfaction       | Improves Significantly       |
| Employee Satisfaction       | Improves                     |

**Table 10: Predicted Outcome of Adding Three Enterprise Account Sellers**

**11.1.9 Add Two Inventory Analysts**

Adding two inventory analysts has greatest impact on customer, and employee satisfaction. Fewer back-orders will improve revenue. Delivery trucks leave facilities full of product. Margin, ROE, RONA, and DCF improve. Fewer back-orders reduce effort required by clients to source every product they require. Employee satisfaction improves with fewer customer complaints, and less effort tracking out of stock products.

Integrating I.T. platforms improves visibility for inventory analysts within the system. Therefore, in the short term, these additional staff will function as problem solvers. In the long term, they will assist with incremental volume, and planning. Addition of team members and integration of the system multiplies the impact of each strategic option individually.

| Forecast Input              | Explained Effect on Strategy |
|-----------------------------|------------------------------|
| Revenue                     | Increases by 1.5% Per Annum  |
| Gross Margin                | Increases                    |
| Return on Equity (ROE)      | Increases                    |
| Return on Net Assets (RONA) | Increases                    |
| SG&A Expenditure            | Remains at Current Level     |
| Discounted Cash Flow (DCF)  | Increases                    |
| Customer Satisfaction       | Improves Significantly       |
| Employee Satisfaction       | Improves Significantly       |

**Table 11: Predicted Outcome of Adding Two Inventory Analysts**



## 11.2 Summary: Predicted Impacts of RST’s Strategic Alternatives

In the first part of this chapter, we explored the predicted the outcomes of each of RST’s strategic alternatives as related to RST’s goals. We now summarize the predicted impacts of each strategic option into table 15.

| Goal                        | Status Quo               | Add Three Customer Service / Merchandisers | Enhance E-Business Tools | Hire Consultant: Redesign Process and Communication Flow | Create Collective Compensation Plans | Integrate Canadian and U.S. Information Technology Platforms | Create General Manager Position | Add Three Enterprise Account Sellers | Add Two Inventory Analysts |
|-----------------------------|--------------------------|--|--------------------------|--|--------------------------------------|--|---------------------------------|--------------------------------------|----------------------------|
| Revenue                     | Decreases                | Improves by 0.5%                           | Improve by 1%            | Increase by 3%   | Increases                            | Increases by 1% Per Annum                                    | Increases by a 6% Per Annum     | Increases by 9% per annum            | Increases                  |
| Gross Margin                | Decreases Marginally     | No Effect                                  | No Effect                | Improve Slightly   | Increases                            | Increases Marginally   | Increases Marginally            | Increases                            | Increases                  |
| Return on Equity (ROE)      | Decreases Marginally     | No Effect                                  | No Effect                | Improves Slightly  | Increases                            | Increases Marginally   | Increases Marginally            | Increases                            | Increases                  |
| Return on Net Assets (RONA) | Remains at Current Level | No Effect                                  | Increases Slightly       | Improves Slightly  | Remains at Current Level             | No Effect  | Increases Marginally            | Increases                            | Remains at Current Level   |
| SG&A Expenditure            | Decreases Marginally     | No Effect                                  | Increases Slightly       | Improves Slightly  | Increases Slightly                   | Improves Marginally  | Improves Significantly          | Increases                            | Increases                  |
| Discounted Cash Flow (DCF)  | Decreases                | Improves Significantly                     | Improves                 | Improves Significantly                                   | Improves Significantly               | Improves Marginally  | Improves Significantly          | Improves Significantly               | Improves Significantly     |
| Customer Satisfaction       | Decreases                | Improves Significantly                     | Improves                 | Improves Significantly                                   | Improves Significantly               | Improves Significantly                                       | Improves Significantly          | Improves                             | Improves Significantly     |
| Employee Satisfaction       | Remains at Current Level | Improves Slightly                          | Improves Slightly        | Improves Significantly                                   | Improves Significantly               | Improves Significantly                                       | Improves Significantly          | Remains at Current Level             | Improves                   |

Table 11: Predicted Impacts of RST's Strategic Alternatives

## 11.3 Valuing and Ranking the Alternatives

In the final step of strategy selection, we utilize Aidan Vining’s meta-choice system.<sup>27</sup>

We assign a value between one and five, to represent the impact of each option, on each goal.

<sup>27</sup> Anthony E. Boardman, Daniel M. Shapiro, and Aidan R. Vining, “A Framework for Comprehensive Strategic Analysis,” *Journal of Strategic Management Education* (2004):

A value of five represents significant improvement toward the corresponding goal. A value of one represents significant worsening of the goal.

| Goal                  | Weight      | Status Quo   | Add 3 Customer Service | Enhance E-Business Tools | Hire Consultant: Redesign Process & Communication Flow | Collective Compensation Plans | Integrate Canadian & U.S. Information Technology Platforms | Create General Manager Position | Add 3 Enterprise Account Sellers | Add 2 Inventory Analysts |
|-----------------------|-------------|--------------|------------------------|--------------------------|--|-------------------------------|--|---------------------------------|----------------------------------|--------------------------|
| Return on Equity      | 0.35        | 2            | 3                      | 3                        | 3.5  | 3.5                           | 3  | 4                               | 3.5                              | 3                        |
| Return on Net Assets  | 0.20        | 2            | 2.5                    | 3                        | 3.5  | 3.5                           | 3  | 4                               | 4.5                              | 3.5                      |
| Discounted Cash Flow  | 0.20        | 3            | 3                      | 3                        | 3  | 3                             | 3  | 4                               | 3.5                              | 3                        |
| Customer Satisfaction | 0.15        | 1            | 3.5                    | 3                        | 4  | 4                             | 4  | 5                               | 3                                | 4                        |
| Employee Satisfaction | 0.10        | 2.5          | 3                      | 3                        | 4  | 3                             | 4  | 4                               | 3                                | 5                        |
|                       |             |              |                        |                          |  |                               |  |                                 |                                  |                          |
| <b>Total Score</b>    | <b>1.00</b> | <b>10.50</b> | <b>15.00</b>           | <b>15.00</b>             | <b>18.00</b>   | <b>17.00</b>                  | <b>17.00</b>   | <b>21.00</b>                    | <b>17.50</b>                     | <b>18.50</b>             |
|                       |             |              |                        |                          |  |                               |  |                                 |                                  |                          |
| <b>Weighted Score</b> | <b>1.00</b> | <b>2.10</b>  | <b>2.98</b>            | <b>3.00</b>              | <b>3.53</b>  | <b>3.43</b>                   | <b>3.25</b>  | <b>4.15</b>                     | <b>3.58</b>                      | <b>3.45</b>              |

Table 12: Weighted Rank of Alternatives

In the final chapter, we will discuss the results above, and recommend a strategy for RST. We will further explain the reasons why RST should change direction and follow the new strategy.

## 12: RECOMMENDATION

The results in table 12 confirm the relative importance of each strategic option available to RST. RST will improve its financial performance by choosing a variety of strategic options. Creating a general management role, hiring a consultant to improve processes, and creating a collective compensation plans all rank highly. Additionally, hiring three additional enterprise sellers ranks highly.

The final ranking did not include revenue, gross margin, or SG&A. These goals are important, but removed for the sake of simplicity, and clarity. Selecting any of the options above will not have a significantly negative effect on expenses. Conversely, each option will improve employee, and customer satisfaction.

The results in table 12 are very encouraging for RST. They suggest vast improvement is possible by departing from its status quo strategy. The results are additionally encouraging for two reasons. Firstly, RST is financially, and organizationally capable of simultaneously enacting all the strategic options immediately. Secondly, none of the strategic options is mutually exclusive. RST should begin with the creation of the general management position. Once appointed, the general manager should immediately begin implementation of each strategic option above.

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