

RFID Channel Seminar RFID Journal Live! 2006

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Putting RFID to Work

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Invest To Grow: RFID Equals Verticalization

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ChannelCorp

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Global management consulting firm

**Specializes in increasing the profitability
and value of resellers and solution providers**

Assists IT vendors improve the quality of their channels

**Past 3 years – focused on the role of reseller CEOs
in growing and building the value of their businesses**

**Insights have helped many reseller CEOs around the world
increase the profitability and long term value of their
organizations**

300 articles/8 books/40 countries

***Reseller Management Handbook* – 7th edition**

More information www.channelcorp.com

Program Outline

- Conversation 1 Why verticalize?
- Conversation 2 Business strategy options
- Conversation 3 What do we need to do?
- Conversation 4 Finance/operations focus
- Conversation 5 Customer base/offering focus
- Conversation 6 Marketing focus
- Conversation 7 Sales focus
- Conversation 8 Vendor focus

Conversation 1 **Why verticalize?**

- 1.1 Vendor/client pressure
- 1.2 New sources of growth/cash
- 1.3 Diversification of business
- 1.4 Growth drivers
- 1.5 Growth impediments

Conversation 1 **Why verticalize?**

1.1 Vendor/client pressure



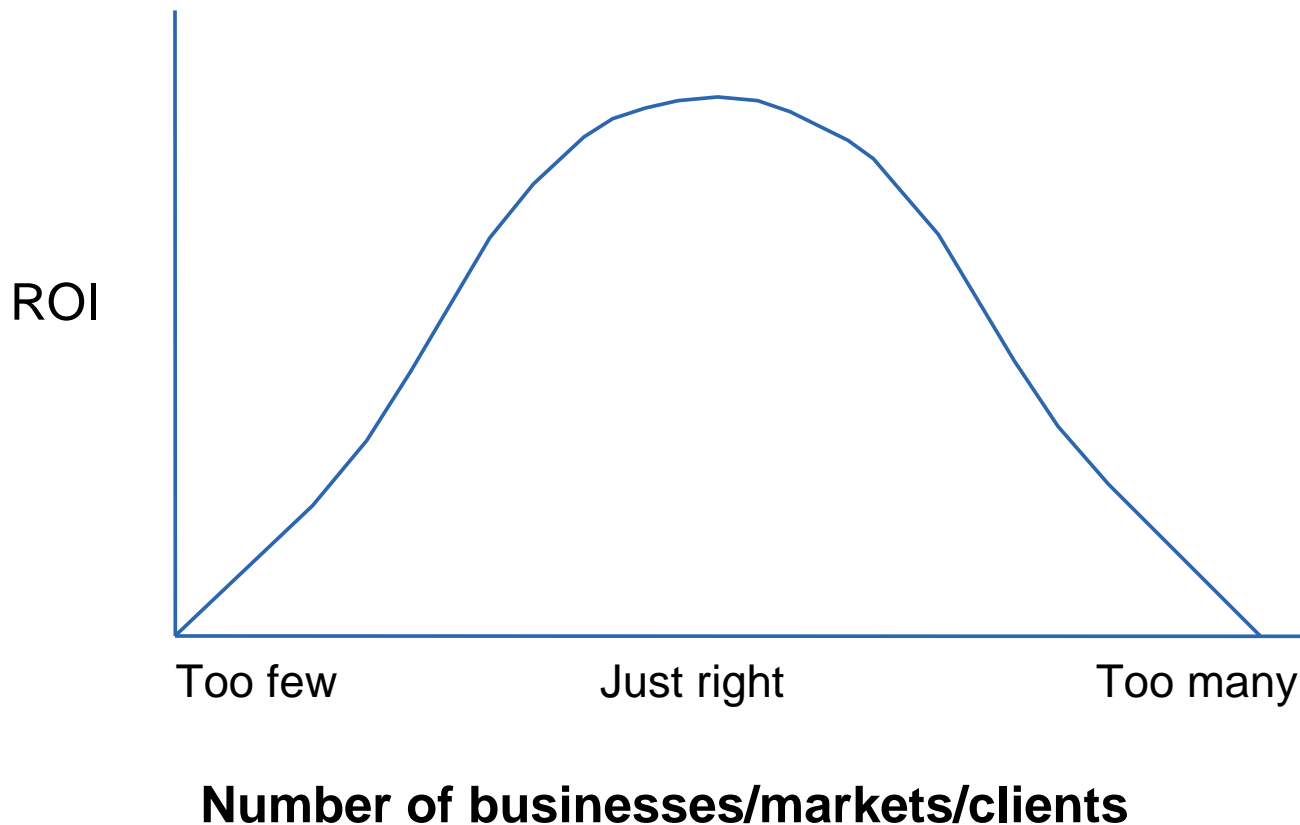
Conversation 1 **Why verticalize?**

1.2 New sources of growth/cash

	No Growth	Growth
Not Profitable	Uses (fix/flush)	Uses (fix/flush)
Profitable	Sources	Sources

Conversation 1 **Why verticalize?**

1.3 Diversification of business



Conversation 1 **Why verticalize?**

1.4 Growth drivers

Founder dissatisfaction

Investor dissatisfaction and impatience

Market pressure

Management push

Customer pull

Conversation 1 **Why verticalize?**

1.5 Growth impediments

Inertia



Conversation 2 **Business strategy options**

2.1 Option drivers

2.2 Do nothing

2.3 Born horizontal . . . stay horizontal

2.4 Born horizontal . . . complement with vertical

2.5 Born horizontal . . . migrate to vertical

2.6 Born vertical . . . stay vertical

2.7 Born vertical . . . complement with horizontal

Conversation 2 **Business strategy options**

2.1 Option drivers

Corporate heritage – how does the business adapt?

Business skills of senior management – can the CEO and management team develop and execute the plan?

Talent base of the organization – will widespread changes in the skill set need to be made?

Financial position of the business – is there enough time/money available to finance any changes?

Conversation 2 **Business strategy options**

2.2 Do nothing

Provides basis for “always hungry . . .
never starving” corporate existence

No decision is a decision

Slow liquidation strategy

Conversation 2 **Business strategy options**

2.3 Born horizontal . . . stay horizontal

Slow liquidation strategy if not best horizontal shop in the market

Could be successful if appropriate alliances are put into place

Most garner increased share of potentially shrinking (horizontal only) market to survive

Conversation 2 **Business strategy options**

2.4 Born horizontal . . . complement with vertical

In line with market trends and
could produce winning strategy

Horizontal expertise as “trojan horse”
if executed well

Vertical capability acquisition strategy
is critical (make vs. buy vs. partner)

Conversation 2 **Business strategy options**

2.5 Born horizontal . . . migrate to vertical

Plan to abandon horizontal business over time

Capital to finance vertical business could come from sale of horizontal business or “milking” of horizontal business

Will require alliances to deal with joint horizontal/vertical sites if horizontal capability is eliminated

Conversation 2 **Business strategy options**

2.6 Born vertical . . . stay vertical

The stick-to-your-knitting strategy that could sentence vertical reseller to life with small clients if strategy to attach is not created

May need to partner horizontal skills for enterprise vertical work due to horizontal legacy of vendor product set

Conversation 2 **Business strategy options**

2.7 Born vertical . . . complement with horizontal

Provides full coverage for clients
from small business to enterprise

Needs horizontal capability acquisition strategy –
could be make vs. buy vs. alliance approach

Conversation 3 **What do we need to do?**

Operations Review

– where is the money currently being made?

Customer Base Audit

– your customer base is your key asset. How will you retain them? How many can you retain?

Sales Strength Audit

– lost sales analysis, customer satisfaction research, client exit interviews

Marketing Strength Audit

– the ability to differentiate yourself – make yourself different – in the eyes of your clients is the test of your marketing. What messages are you delivering?

Conversation 4 **Finance focus**

4.1 Cash costs of growth

4.2 Investment issues



Conversation 4 **Finance focus**

4.1 Cash costs of growth

	Existing Accounts	New Accounts	New Markets
Existing Products	15¢/\$	30¢/\$	60¢/\$
New Products	30¢/\$	60¢/\$	120¢/\$
New Technologies	60¢/\$	120¢/\$	240¢/\$

Conversation 4 **Finance focus**

4.2 Investment issues – Year 1 investment

Year one out-of-pocket investment

Investment Area	Cost	Total Cost	
Salespeople	– salary	2 @ \$120,000/yr.	\$240,000
	– tools	2 @ \$ 10,000	\$20,000
Sales Engineer	– salary	1 @ \$100,000/yr.	\$100,000
	– tools	1 @ \$20,000	\$20,000
Demonstration unit		1 @ \$35,000	\$35,000
Marketing (15%)	.15 x \$ 1,000,000		\$150,000
Total			\$560,000

Conversation 4 Finance focus

4.2 Investment issues – Year 1 cash flow

Cash costs of growth – year 1 (\$ thousands)

	Q ₁	Q ₂	Q ₃	Q ₄	Year One
Sales	0	0	250	750	1,000
Total Cash In	0	0	0	250	250
Cash Out (Expenses)					
Product Costs	0	0	175	525	700
Sales Salaries	60	60	60	60	240
Sales Tools	10	10	0	0	20
Sales Engineer Salary	25	25	25	25	100
Sales Engineer Tools	10	10	0	0	20
Demonstration Unit	0	35	0	0	35
Marketing	37.5	37.5	37.5	37.5	150
Total Cash Out	(142)	(177)	(297)	(647)	(1,265)
Cash In – Cash Out	(142)	(177)	(297)	(347)	(1,015)
Cumulative Cash Flow	(142)	(319)	(616)	(1,013)	(1,015)

Conversation 4 Finance focus

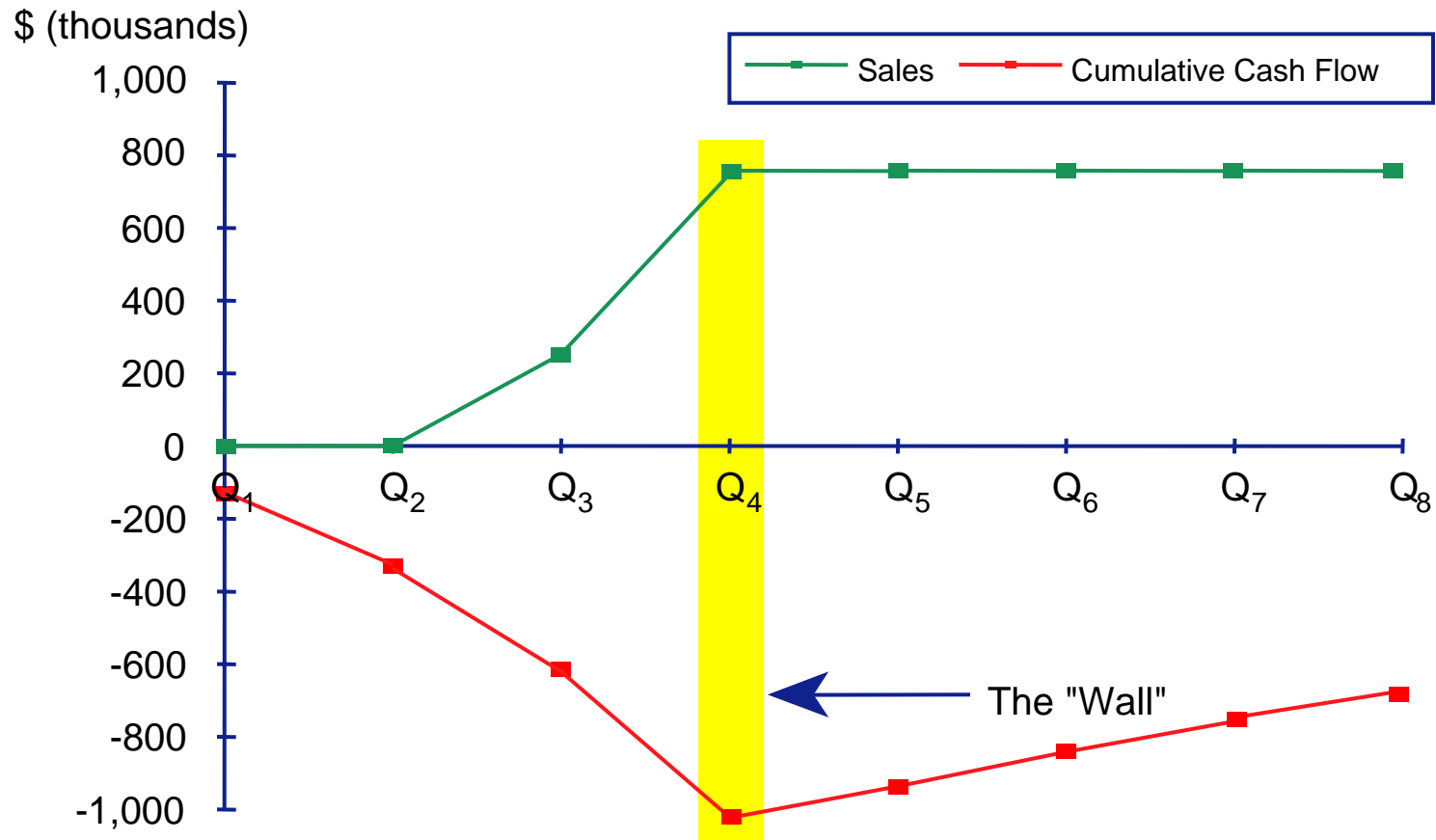
4.2 Investment issues – Year 2 investment

Cash costs of growth – year 2 (\$ thousands)

	Q ₅	Q ₆	Q ₇	Q ₈	Year Two
Sales	750	750	750	750	3,000
Total Cash In	750	750	750	750	3,000
Cash Out (Expenses)					
Product Costs	525	525	525	525	2,100
Sales Salaries	60	60	60	60	240
Sales Tools	0	0	0	0	0
Sales Engineer Salary	25	25	25	25	100
Sales Engineer Tools	0	0	0	10	10
Demonstration Unit	0	0	0	0	0
Marketing ¹	50	50	50	50	200
Total Cash Out	660	660	660	660	2,640
Cash In - Cash Out	90	90	90	90	360
Cumulative Cash Flow	(925)	(835)	(745)	(655)	(655)

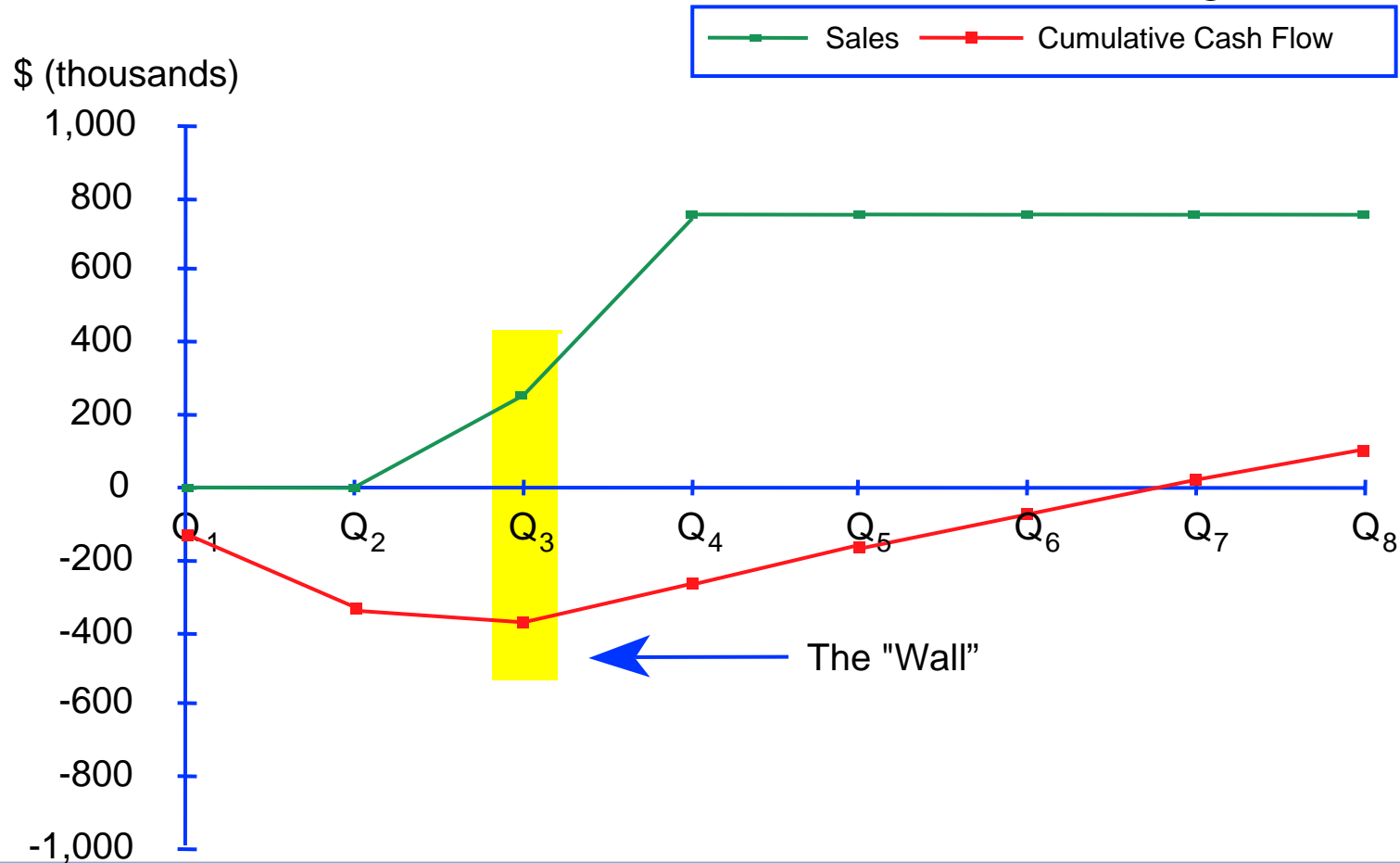
Conversation 4 Finance focus

4.2 Investment issues – CCOG: One Quarter A/R Lag



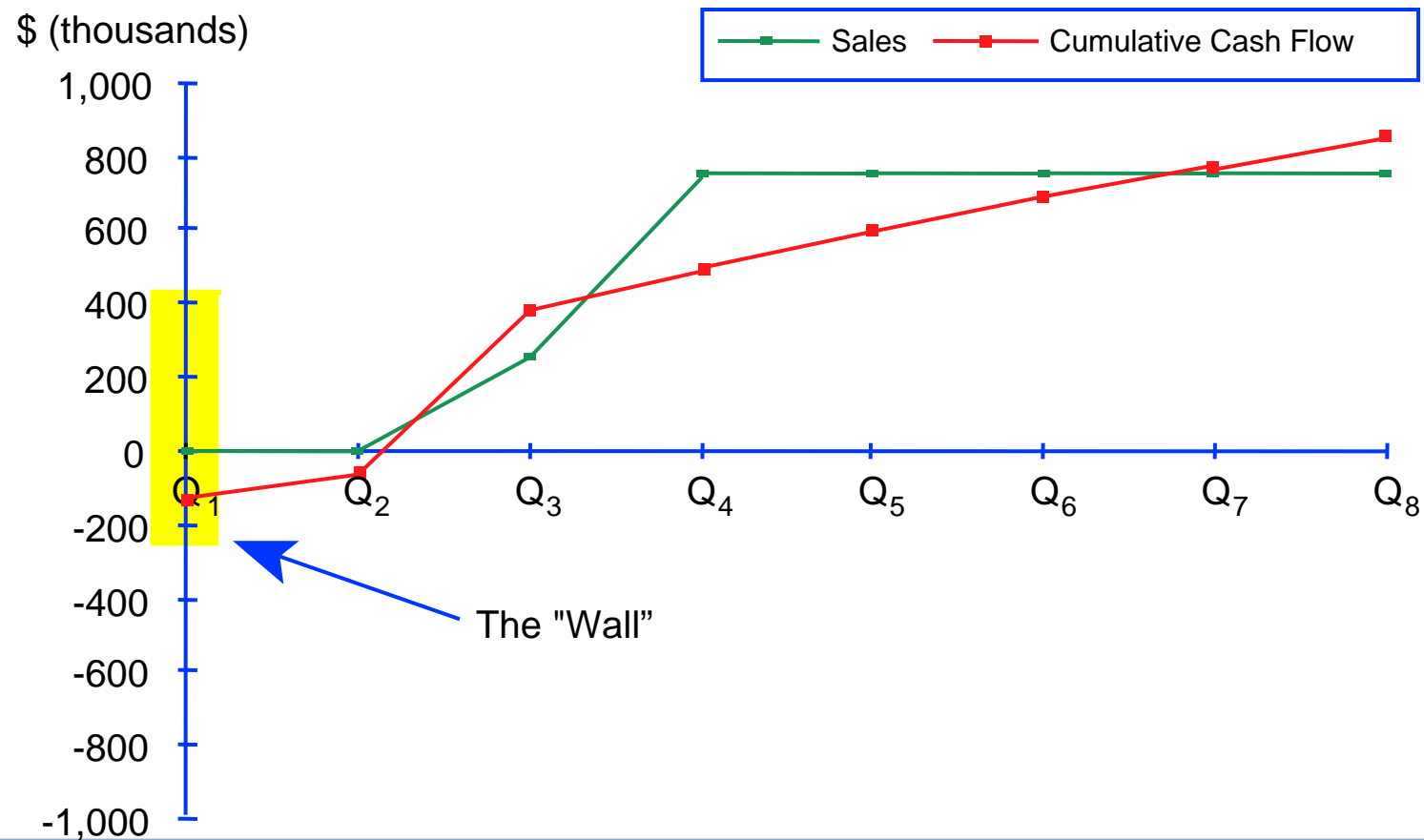
Conversation 4 Finance focus

4.2 Investment issues – CCOG: No A/R Lag



Conversation 4 Finance focus

4.2 Investment issues — CCOG: One Quarter A/R Lead



Conversation 5 **Customer base/offering focus**

5.1 Vertical clusters in your base

5.2 You need an offering strategy

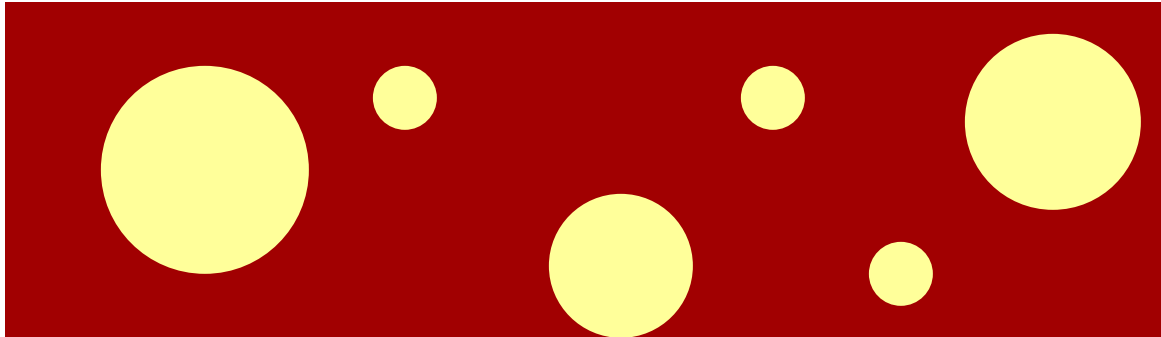
5.3 Offering strategy needs breadth and depth

5.4 You need a “manufacturing” strategy

5.5 You need information

Conversation 5 **Customer base/offering focus**

5.1 Vertical clusters in your base



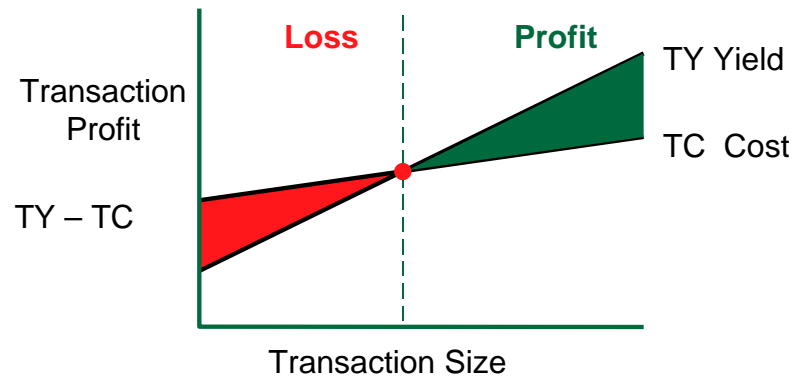
You have inadvertently created a base that has vertical clusters

Look closely – we do what we know . . . and then we do more of it

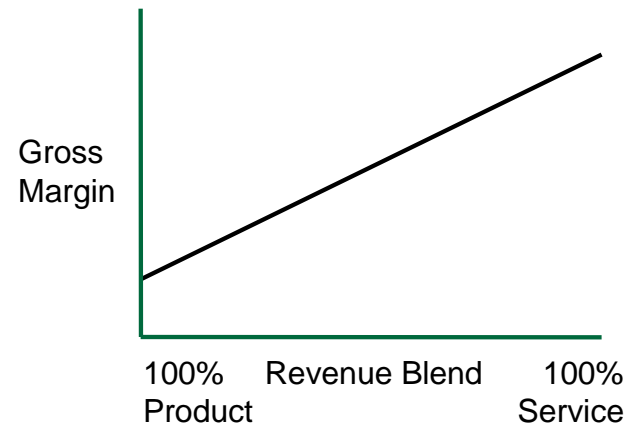
Is this foundation of scale to create a vertical business or several vertical businesses?

Conversation 5 Customer base/offering focus

5.2 You need an offering strategy



Increase transaction yield



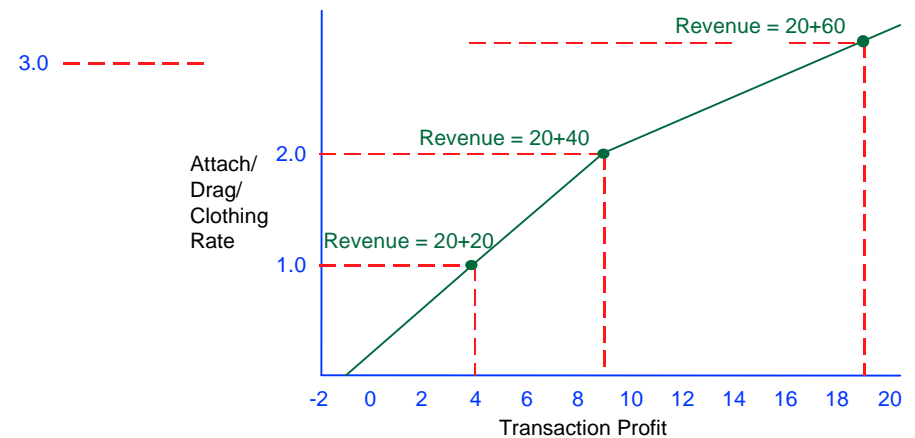
Conversation 5 Customer base/offering focus

5.2 You need an offering strategy *(continued)*

Cracking the code

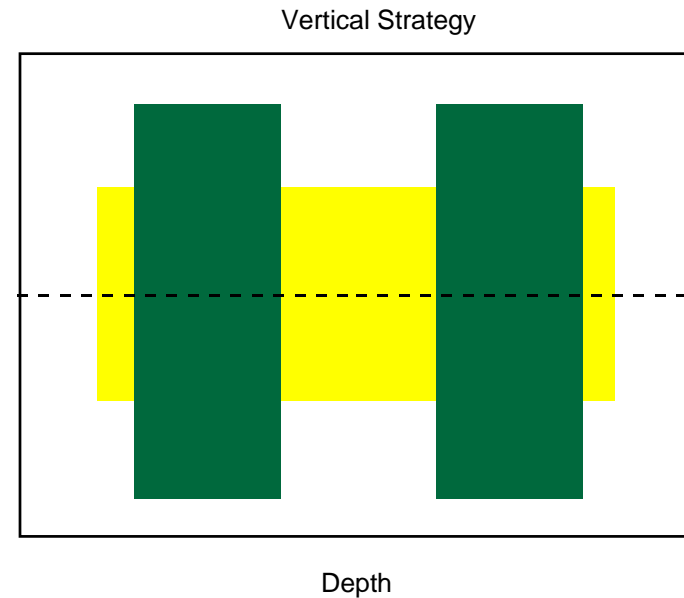
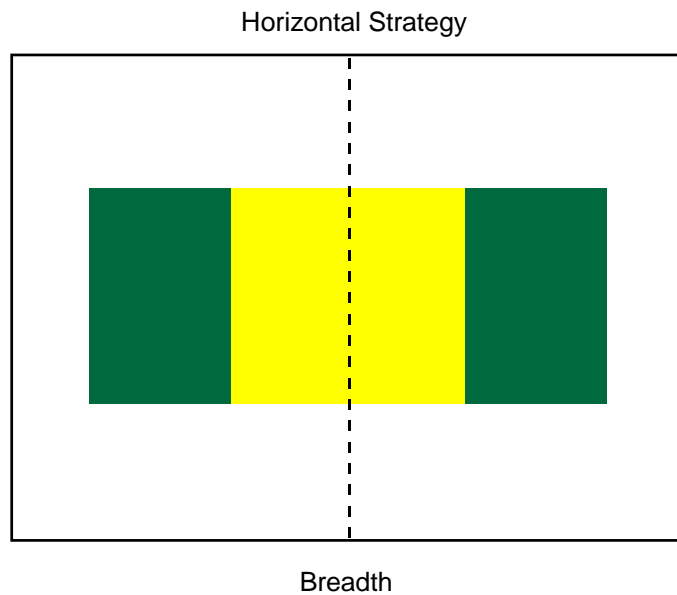
	Enterprise	SMB(a)	SMB(b)
Transaction Revenue	100,000	20,000	20,000 + 6,000
COGS	70,000	16,000	16,000 + 3,000
Gross Margin \$	30,000	4,000	7,000
SG&A	20,000	5,000	5,000
		(1,000) * 5	2,000 * 5
Profit	10,000	(5,000)	10,000

Attach/drag/clothing vs. profit



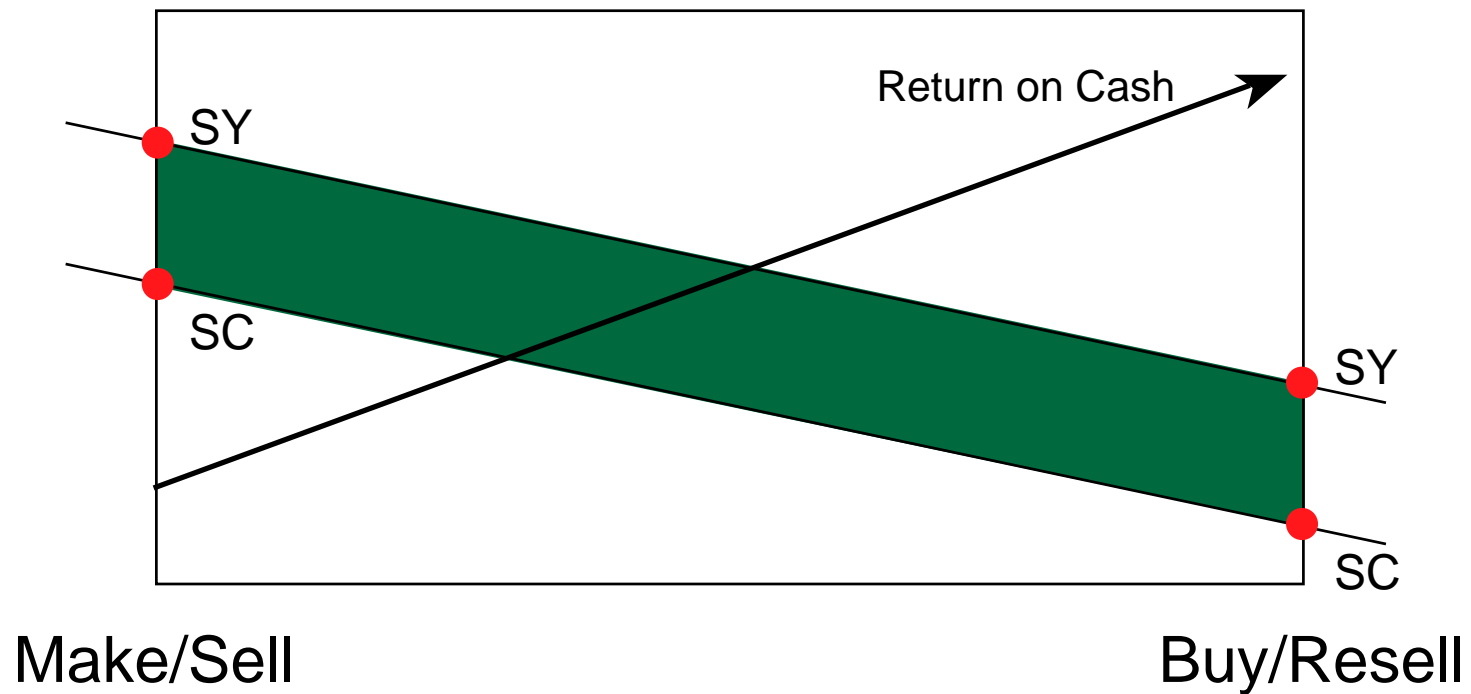
Conversation 5 Customer base/offering focus

5.3 Offering strategy needs breadth and depth



Conversation 5 **Customer base/offering focus**

5.4 You need a “manufacturing” strategy



Conversation 5 **Customer base/offering focus**

5.5 You need information

Go to school on the customers in the verticals in your base

Go to school on your potential clients and what offering they need

Go to school on your competition

Go to school on the vendor programs available
– engage!

Conversation 6 **Marketing focus**

6.1 You need role clarity

6.2 You need structure

6.3 You need metrics

6.4 You need commitment, discipline and cash

Conversation 6 **Marketing focus**

6.1 You need role clarity



Conversation 6 Marketing focus

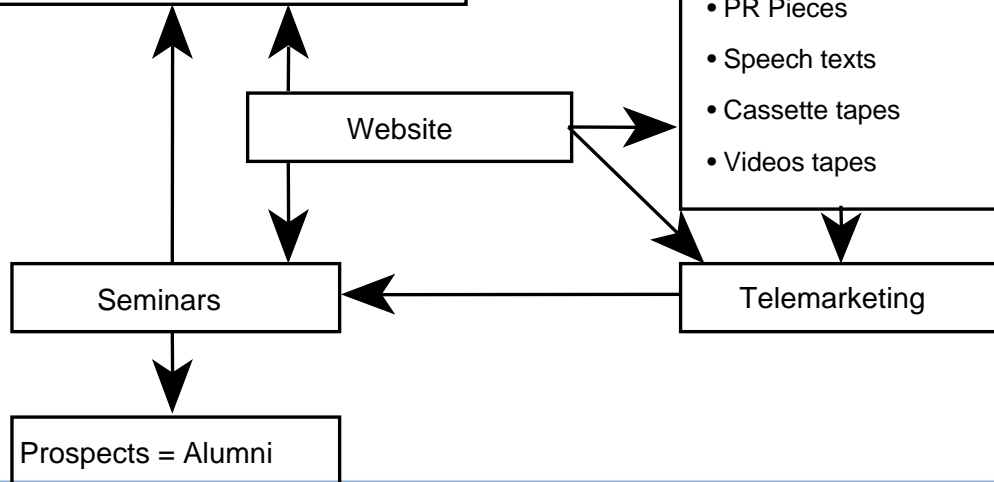
6.2 You need structure

DATABASE

Description	Number
Target Accounts	300–500
Reference Sites	5–10
Reference Accounts	15–25
Satisfied Accounts	Varies
Dissatisfied Accounts	Varies

DIRECT MAIL

- Seminar invitations
- Articles
- Brochures
- Letters
- Newsletters
- Postcards
- PR Pieces
- Speech texts
- Cassette tapes
- Videos tapes



Conversation 6 **Marketing focus**

6.3 You need metrics

Direct mail pieces sent

Telemarketing calls made

Newsletters sent

Seminars/webinars conducted

Attendees per seminar/webinar

Total numbers

Prospects generated

Demonstrations booked/given

Proposals submitted

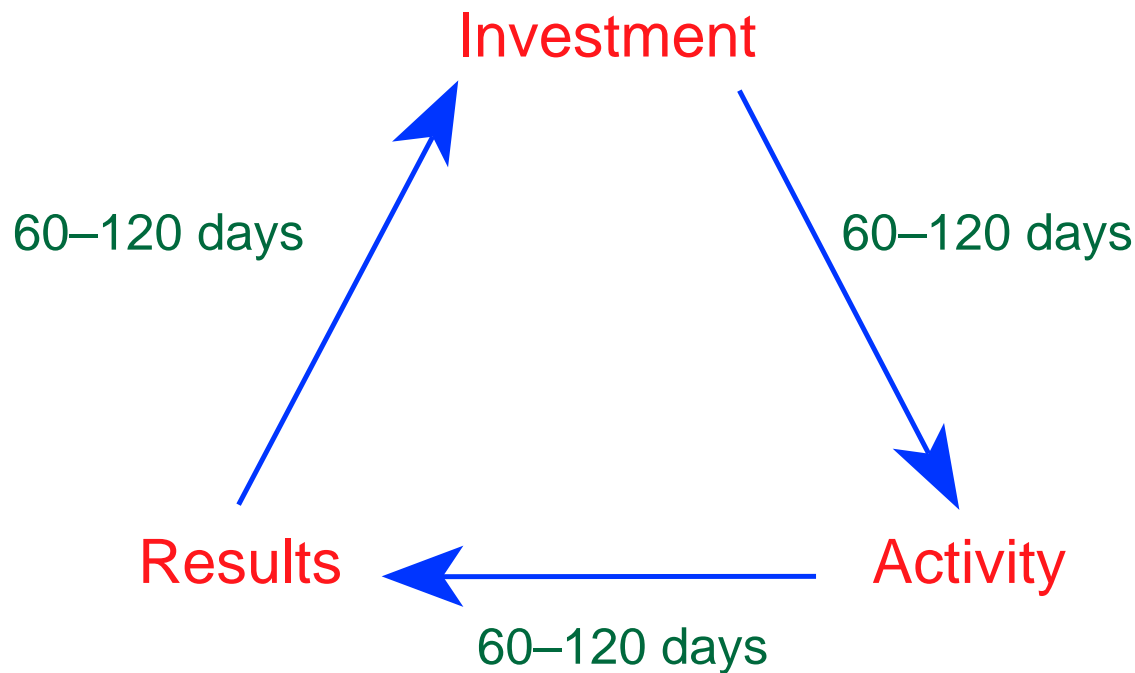
Proposals won

Hit rate

Median transaction size

Conversation 6 **Marketing focus**

6.4 You need commitment, discipline and cash

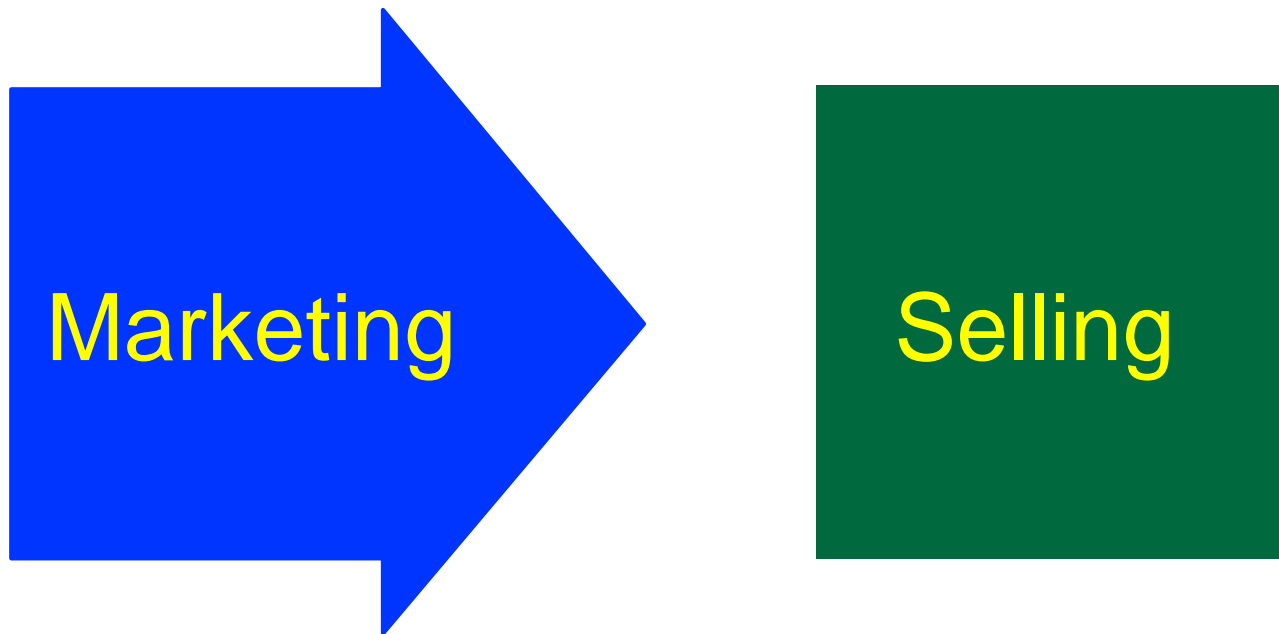


Conversation 7 **Sales focus**

- 7.1 Good selling needs good marketing
- 7.2 Do we have the right sales talent?
- 7.3 Structure to match costs to yields

Conversation 7 **Sales focus**

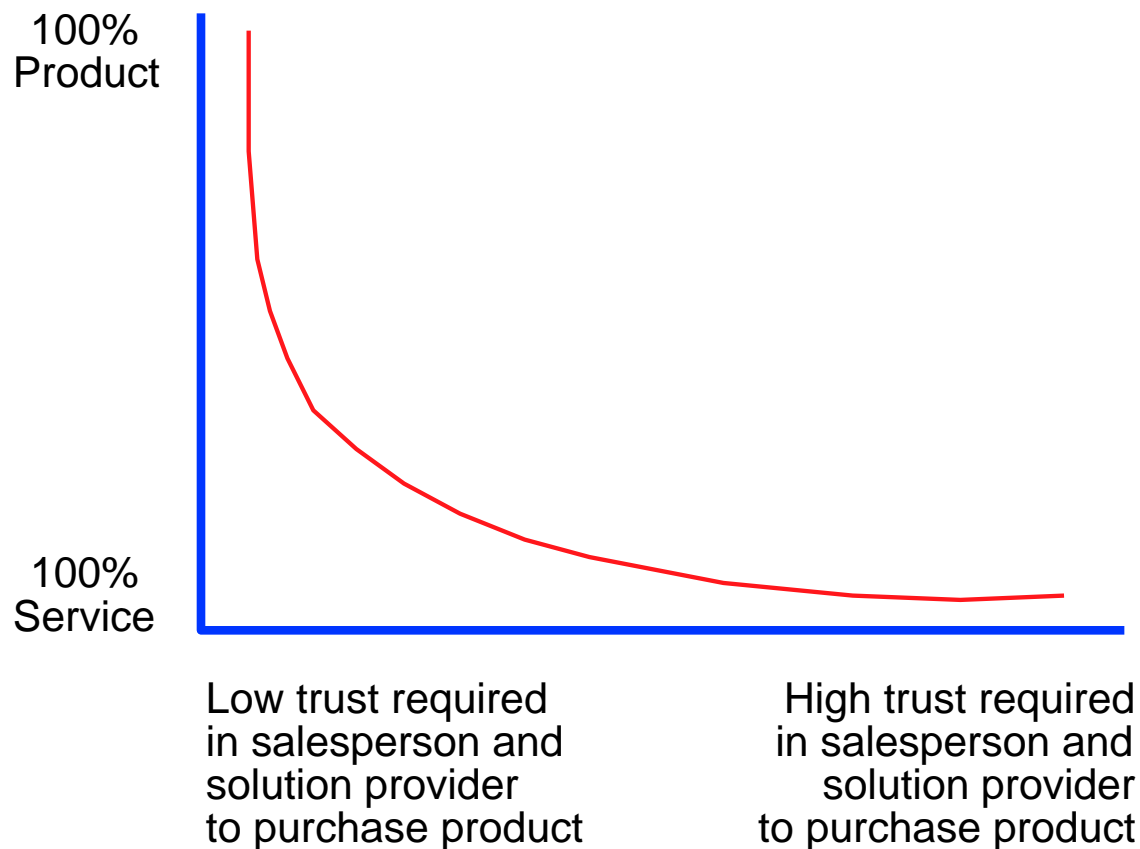
7.1 Good selling needs good marketing



“Market then sell”

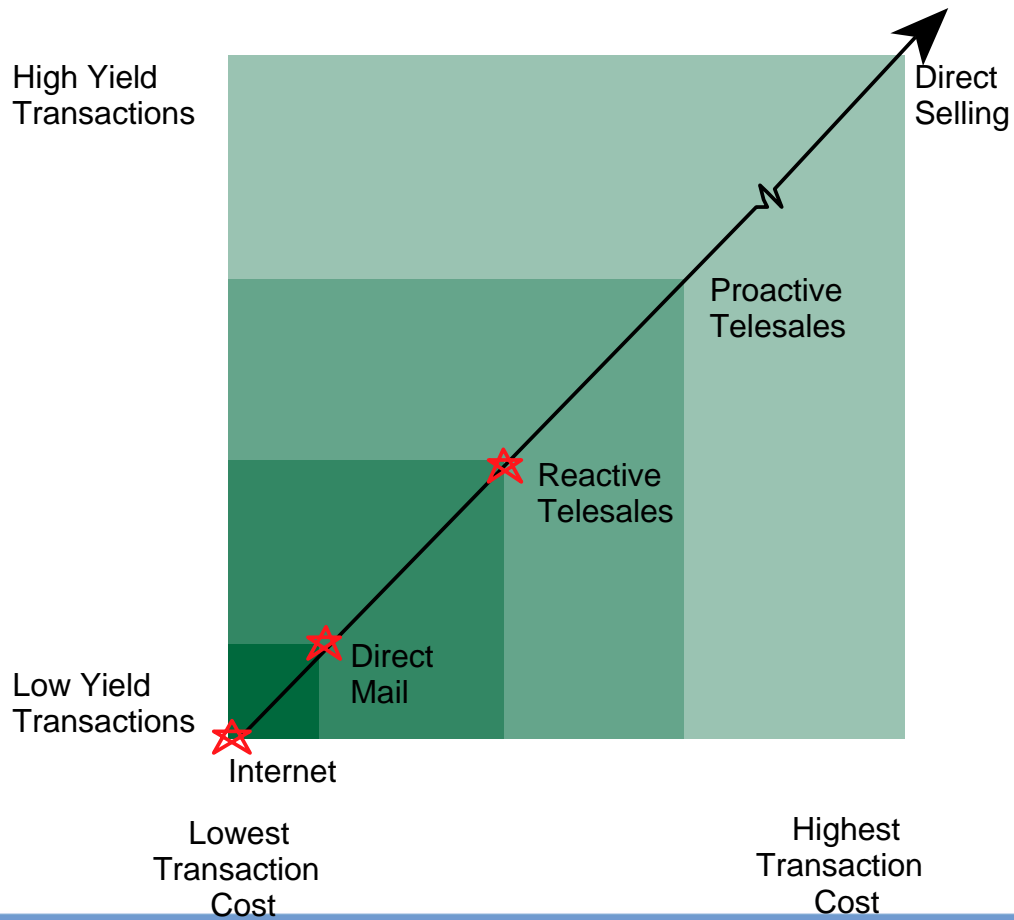
Conversation 7 Sales focus

7.2 Do we have the right sales talent?



Conversation 7 Sales focus

7.3 Structure to match costs to yields



Conversation 8 **Vendor focus**

- Look for complete products
- Look for viable business proposition
- Look for intelligent channel strategy
- Look for “business savvy” channel or account managers who can count
- Look for ROI at 2–3X prime rate
- Look for payback period of 12–18 months