

Defining the Burning Platform, Shared Vision, & the Executive Mandate
while Organizing a Guiding Coalition of Visionary Executives

ACHIEVING THE PERFORMANCE-DRIVEN CULTURE

Issues & Objectives

- CEO's Concerns:
 - How do we make sense of the organization's size & complexity?
 - How adequate and appropriate are systems & processes?
 - How do we simplify, without oversimplifying?
 - How do we interact with the rest of the business?
 - How do we get things done effectively and quickly?
 - Do we have too many chiefs AND too many Indians?
 - How do we create a bias for action in a successful organization?
- CEO's Questions:
 - How does it work?
 - How might it work?
 - What is the right size?
 - What are the right systems?
- CEO's Objectives:
 - Gain competitive advantage and increase shareholder value
 - Create the organizational competencies to execute the required changes

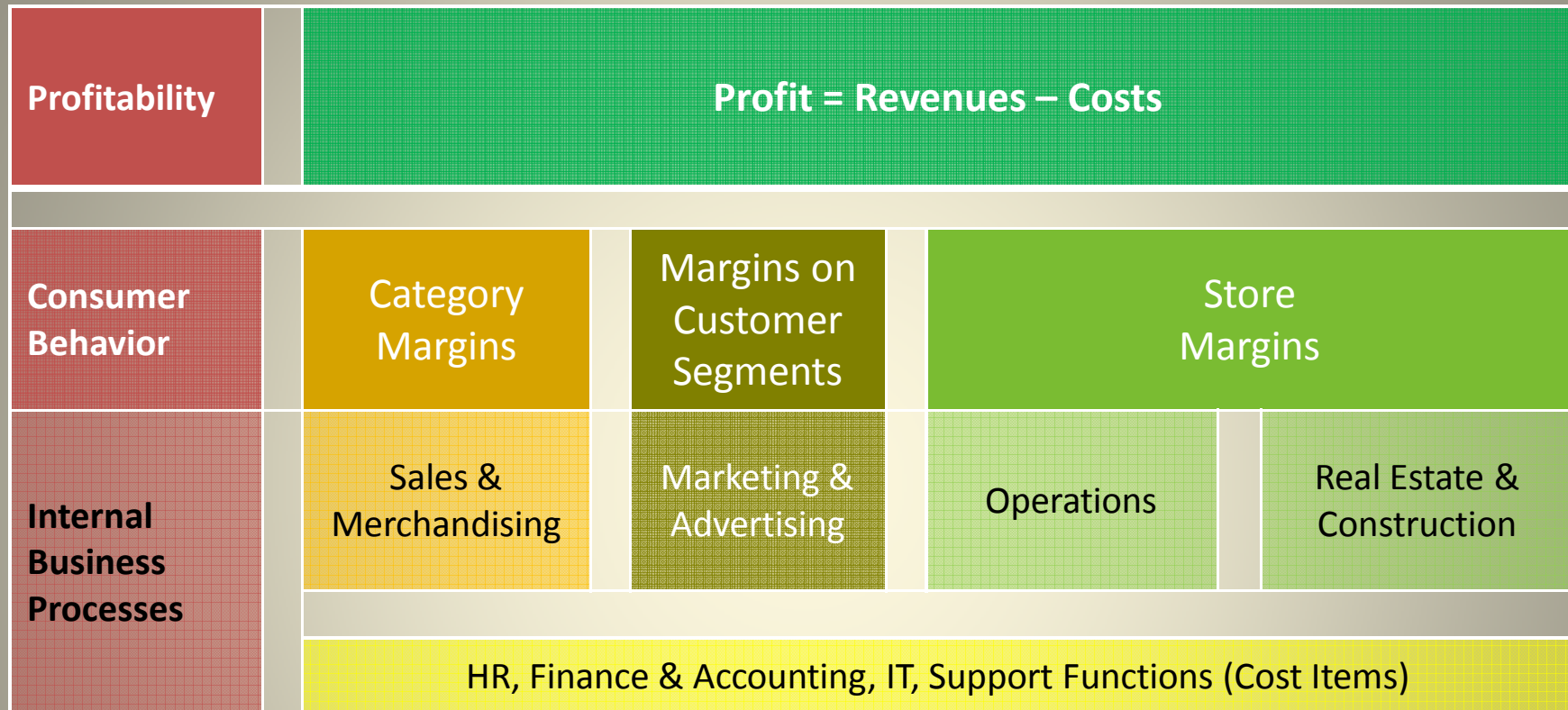
The “Three Essentials” for Driving Change

- The “Burning Platform”
- The Shared Vision that over-rides Individual Interests
 - Financial win
 - Solves a large organizational problem felt by all
 - Creates Competitive Advantage
- The “Executive Mandate”
 - This is where we’re going and here’s how we’ll get there

How well do we truly understand our business?

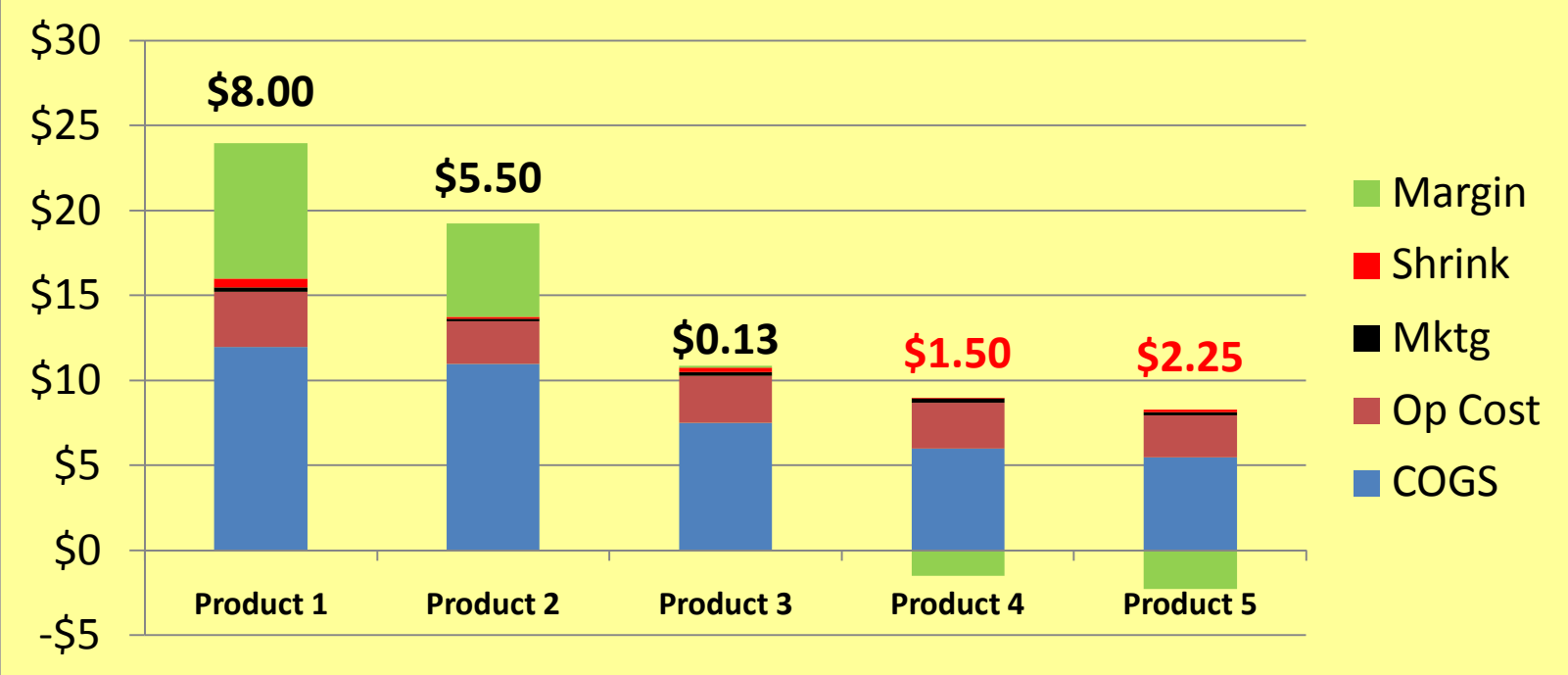
	Total	Decile 1	Decile 2	Decile 3	Decile 4	Decile 5	Decile 6	Decile 7	Decile 8	Decile 9	Decile 10
# of Customers	2,500,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Net Sales	16,607,188										
Pre DC Gross Profit	5,708,183										
Distribution Costs	324,129										
GP after DC	5,384,054										
Direct Wages	1,574,261										
Indirect Wages	178,828										
Benefits & Taxes	624,793										
Total WBT	2,377,882										
Other Store Expenses	921,921										
Store Rent	407,862										
Depreciation	411,554										
Advertising	122,759										
Administration	393,445										
Misc Gain/Loss	31,265										
Total Op Costs	4,666,688										
Op Earnings	717,366										
EBIT	743,364										
# Shares (Hypothetical)	200,000										
EPS	\$ 3.72										
P/E Ratio (Hypothetical)	3										
Share Price	\$ 11.15										

The Current Structure



- **Has the potential for higher costs and narrower margins**
 - Over-analysis in one area and under-utilization in another
 - Overstaffing, over-processing & information overload
- **Offers different versions of the truth**
- **Does not support execution of strategic initiatives crossing towers**

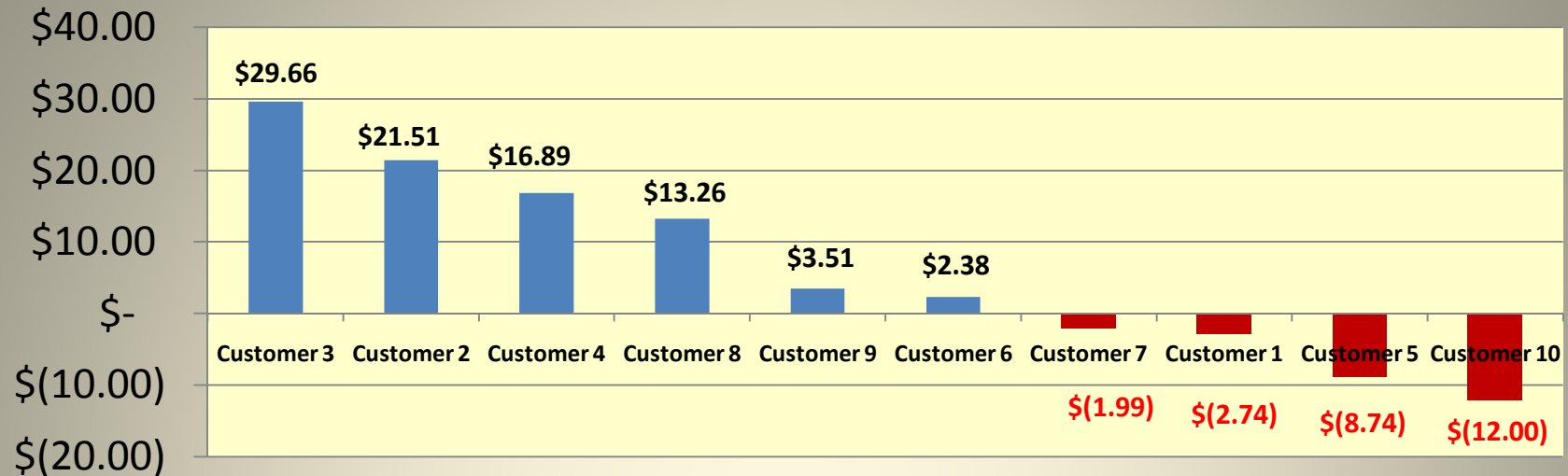
Actual Margins on Five Hypothetical Products



	COGS	Selling Price	% Markup	\$ Markup
Product 1	12.00	\$24.00	100%	12.00
Product 2	11.00	\$19.25	75%	8.25
Product 3	7.50	\$10.88	45%	3.38
Product 4	6.00	\$7.50	25%	1.50
Product 5	5.50	\$6.05	10%	0.55

Op Cost	Mktg	Shrink	Margin
3.25	0.25	0.50	8.00
2.50	0.15	0.10	5.50
2.80	0.20	0.25	0.13
2.70	0.25	0.05	-1.50
2.45	0.20	0.15	-2.25

Hypothetical Profit Margin by Customer

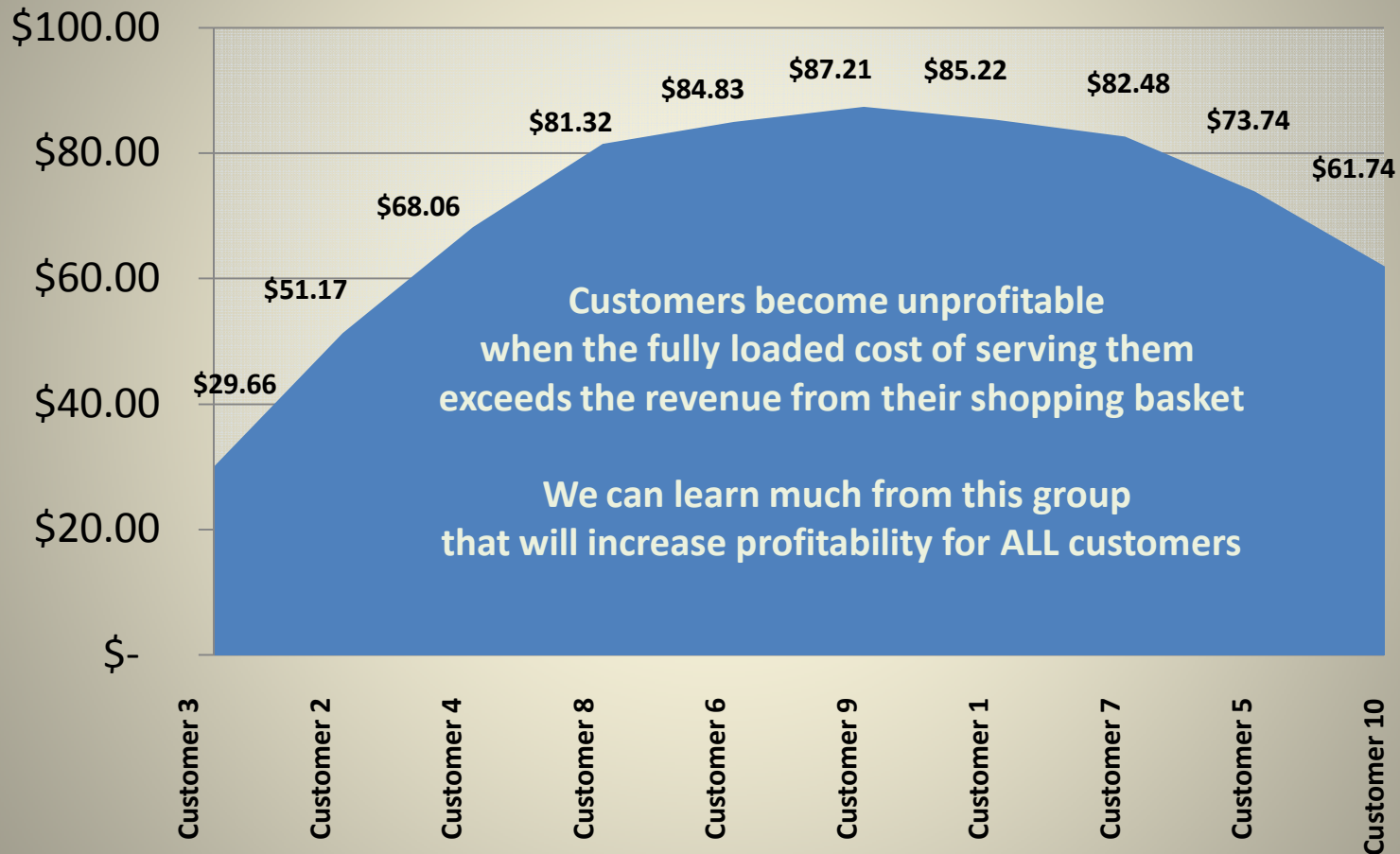


Product Margins	Product 1	Product 2	Product 3	Product 4	Product 5
	\$ 8.00	\$ 5.50	\$ 0.13	\$ (1.50)	\$ (2.25)

Customer Margins	Product 1	Product 2	Product 3	Product 4	Product 5	Customer Profitability
Customer 1	0.00	16.50	0.26	-10.50	-9.00	\$ (2.74)
Customer 2	16.00	16.50	0.26	-4.50	-6.75	\$ 21.51
Customer 3	8.00	27.50	0.91	-4.50	-2.25	\$ 29.66
Customer 4	16.00	11.00	0.39	-1.50	-9.00	\$ 16.89
Customer 5	0.00	0.00	0.26	-4.50	-4.50	\$ (8.74)
Customer 6	8.00	5.50	0.13	-4.50	-6.75	\$ 2.38
Customer 7	0.00	0.00	0.26	0.00	-2.25	\$ (1.99)
Customer 8	8.00	11.00	0.26	-1.50	-4.50	\$ 13.26
Customer 9	0.00	5.50	0.26	0.00	-2.25	\$ 3.51
Customer 10	0.00	0.00	0.00	-3.00	-9.00	\$ (12.00)

Unprofitable Customers Decrease Value

Cumulative Profit - Hypothetical

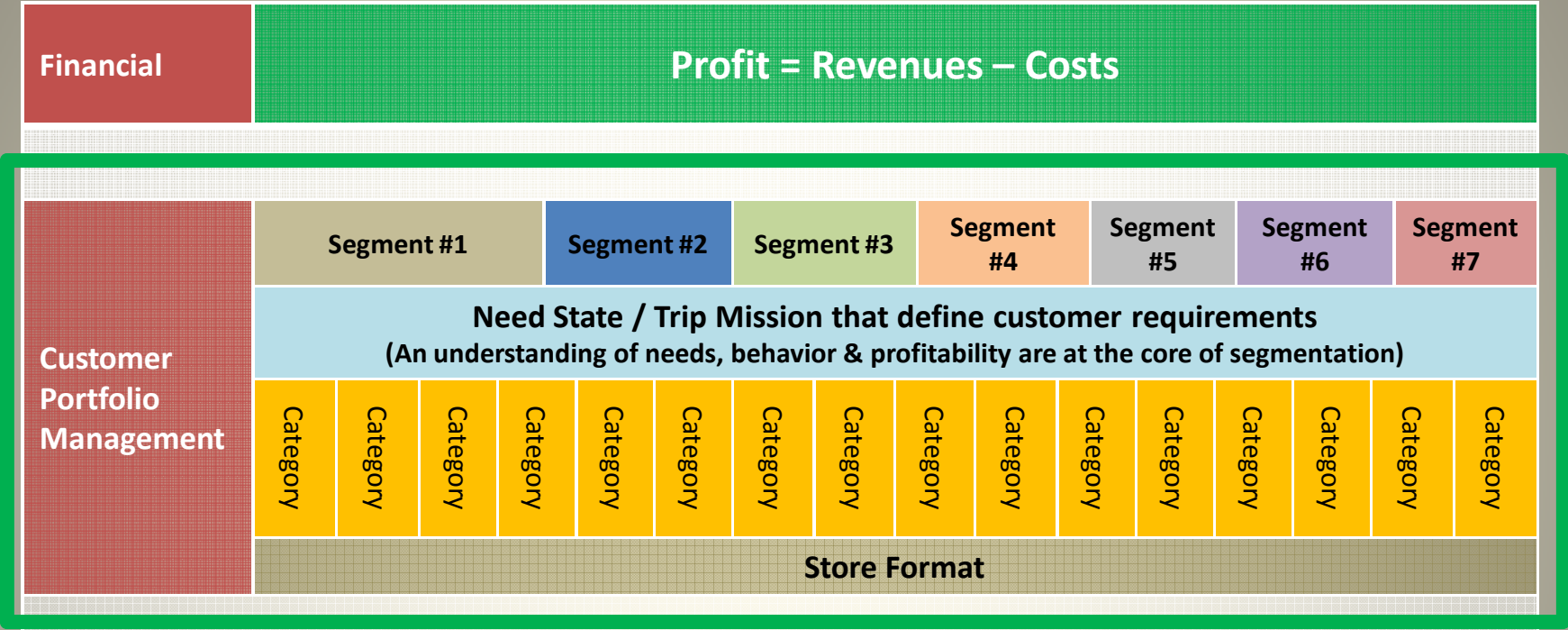


The key is understanding fully-loaded costs by customer

How well do we truly understand our business?

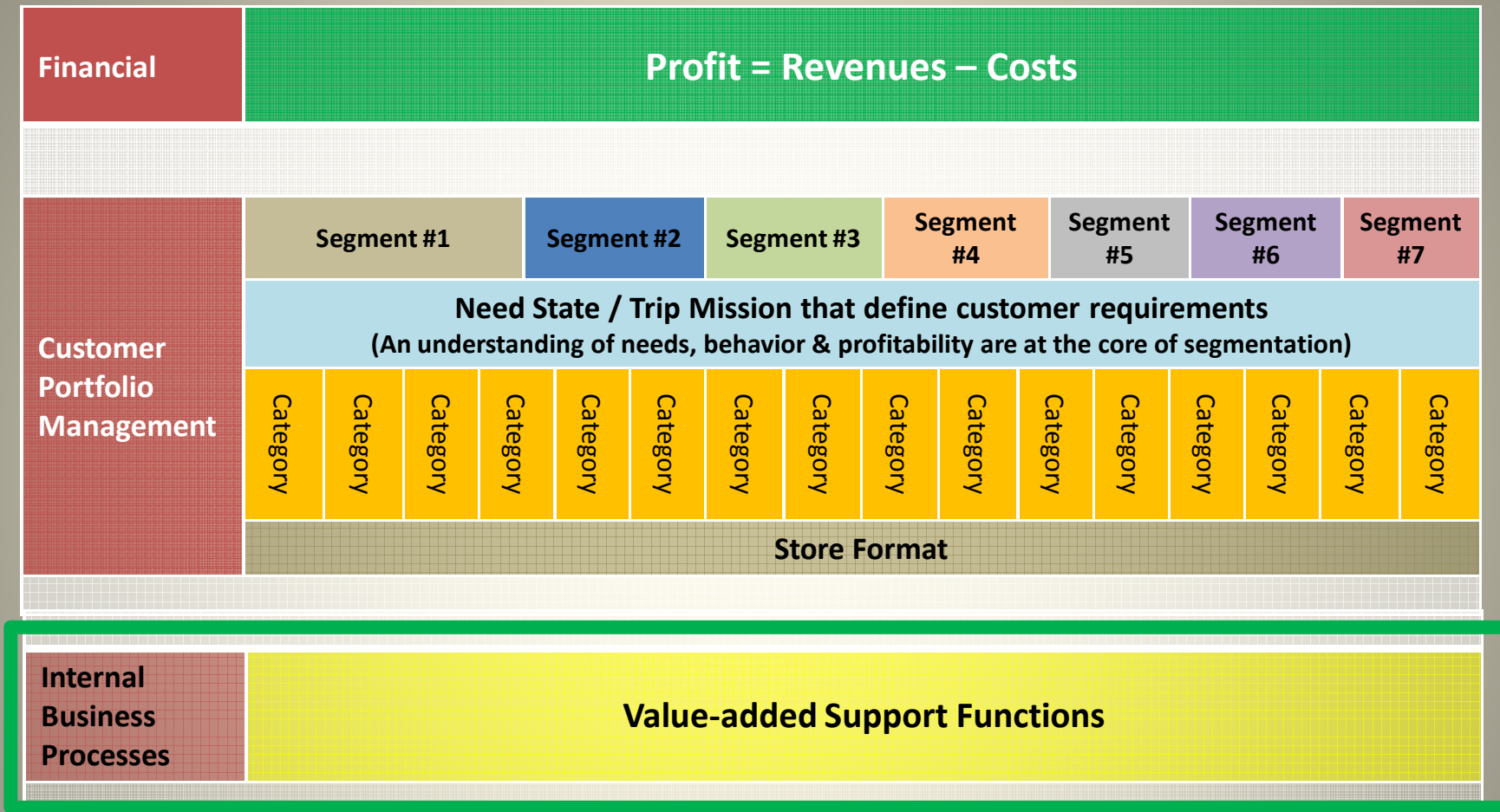
	Total	Decile 1	Decile 2	Decile 3	Decile 4	Decile 5	Decile 6	Decile 7	Decile 8	Decile 9	Decile 10
# of Customers	2,500,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Net Sales	16,607,188										
Pre DC Gross Profit	5,708,183										
Distribution Costs	324,129										
GP after DC	5,384,054										
Direct Wages	1,574,261										
Indirect Wages	178,828										
Benefits & Taxes	624,793										
Total WBT	2,377,882										
Other Store Expenses	921,921										
Store Rent	407,862										
Depreciation	411,554										
Advertising	122,759										
Administration	393,445										
Misc Gain/Loss	31,265										
Total Op Costs	4,666,688										
Op Earnings	717,366										
EBIT	743,364										
# Shares (Hypothetical)	200,000										
EPS	\$ 3.72										
P/E Ratio (Hypothetical)	3										
Share Price	\$ 11.15										

Managing by Customer Segment Profitability



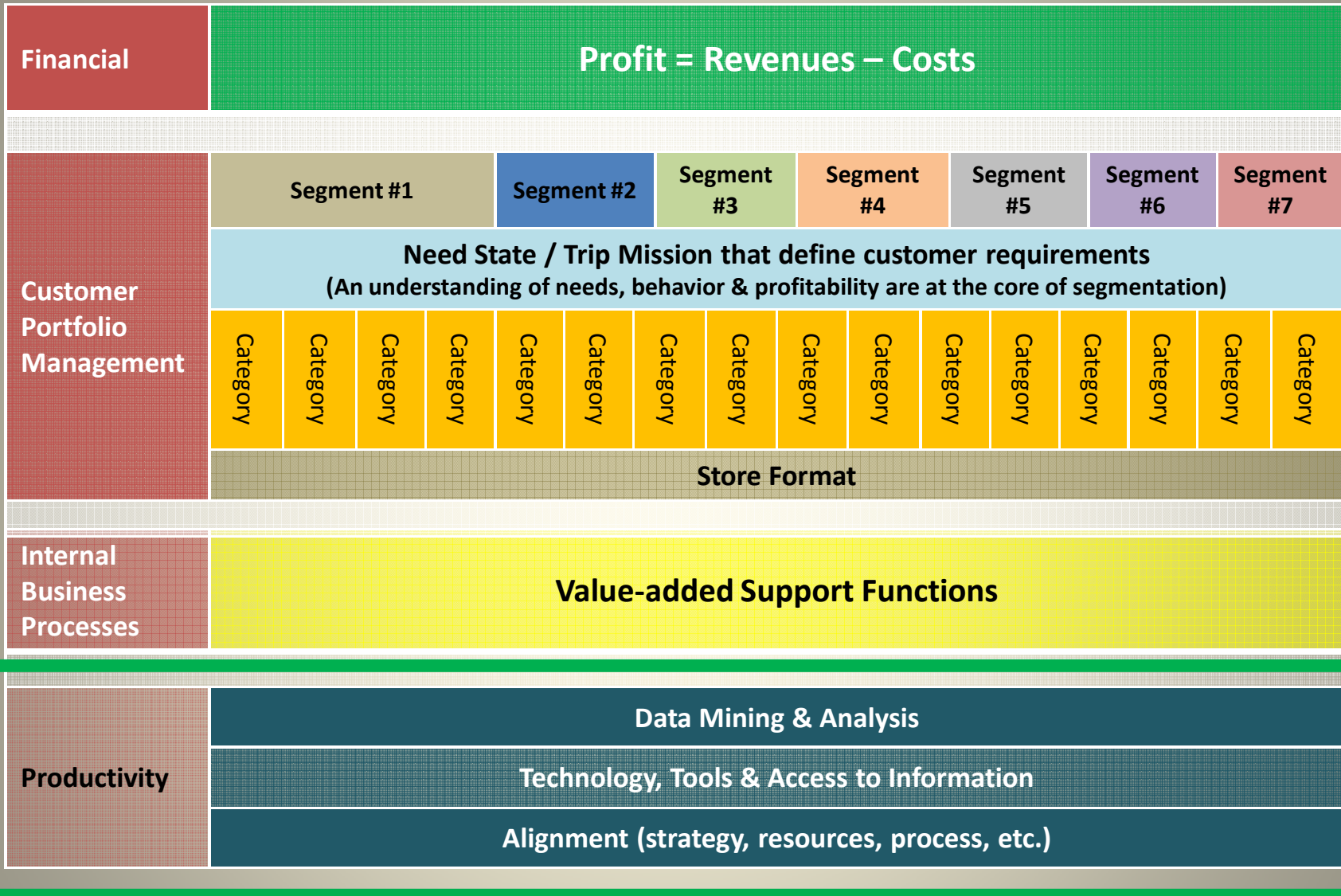
Customer needs, behavior and economies of scale dictate category management & store format

Operational Excellence & Organizational Alignment



Strategy Determines Structure

Technology Requirements



The success of Performance Measurement can ultimately be benchmarked in Consumer Behavior & Profitability

Achieving the Performance-Driven Culture

HOW DO WE GET THERE?

Why Program Management Offices (PMOs) Fail

- They lack support & direction from a Guiding Coalition of Senior Executives
 - The organization's strategy is unclear
 - The PMO's mission is unclear (or varies depending on the audience)
 - Strategy Development?
 - Reporting?
 - Project Management?
 - They have no authority
 - Senior executives will not deal with obstructionists
 - It's not the PMO's job to run "The Business"
- Stakeholders do not share the rewards for partnering to find efficiencies
 - Billing & budgeting is based on allocations rather than cost of services
- There is no formal, continuous process for change functioning at all three levels:
 - Executive
 - Performance Measurement & Analysis
 - Program/Project Management

Strategic Themes in a Performance-Driven Culture

- **Define & Measure Performance**
 - Proceed with Activity Based Costing to determine fully loaded costs & actual margins
 - Measure Customer Profitability in Deciles
 - Scorecards linking financial performance to operational data
 - Create visibility & accountability through relevant reporting
- **Strategic Themes**
 - **Operational Excellence** (*to manage the cost side of the profit formula*)
 - Proceed with Pilot Projects
 - Value Stream Mapping & “Lean Out” inefficient & ineffective processes
 - Identify what should be centralized vs. distributed
 - **Customer Centricity** (*to manage the revenue and margin aspects of the profit formula*)
 - Profit profiling & segmentation of customers
 - Apply customer profitability to category management, store & retail operations, and formats
 - **Technology Related Re-engineering**
 - Align technology deployment with business process re-engineering efforts
 - Interface with IT team to build learning into new systems
 - Identify any gaps
 - Work with Performance Excellence Group to benchmark the Before & After states

Organizational Excellence Strategic Theme

- **Define & Measure Performance**

- Proceed with Activity Based Costing to determine fully loaded costs & actual margins
- Measure Customer Profitability in Deciles
- Scorecards linking financial performance to operational data
- Create visibility & accountability through relevant reporting

- **Strategic Themes**

- **Operational Excellence**

- Proceed with Pilot Projects
- Value Stream Mapping & “Lean Out” inefficient & ineffective processes
- Identify what should be centralized vs. distributed

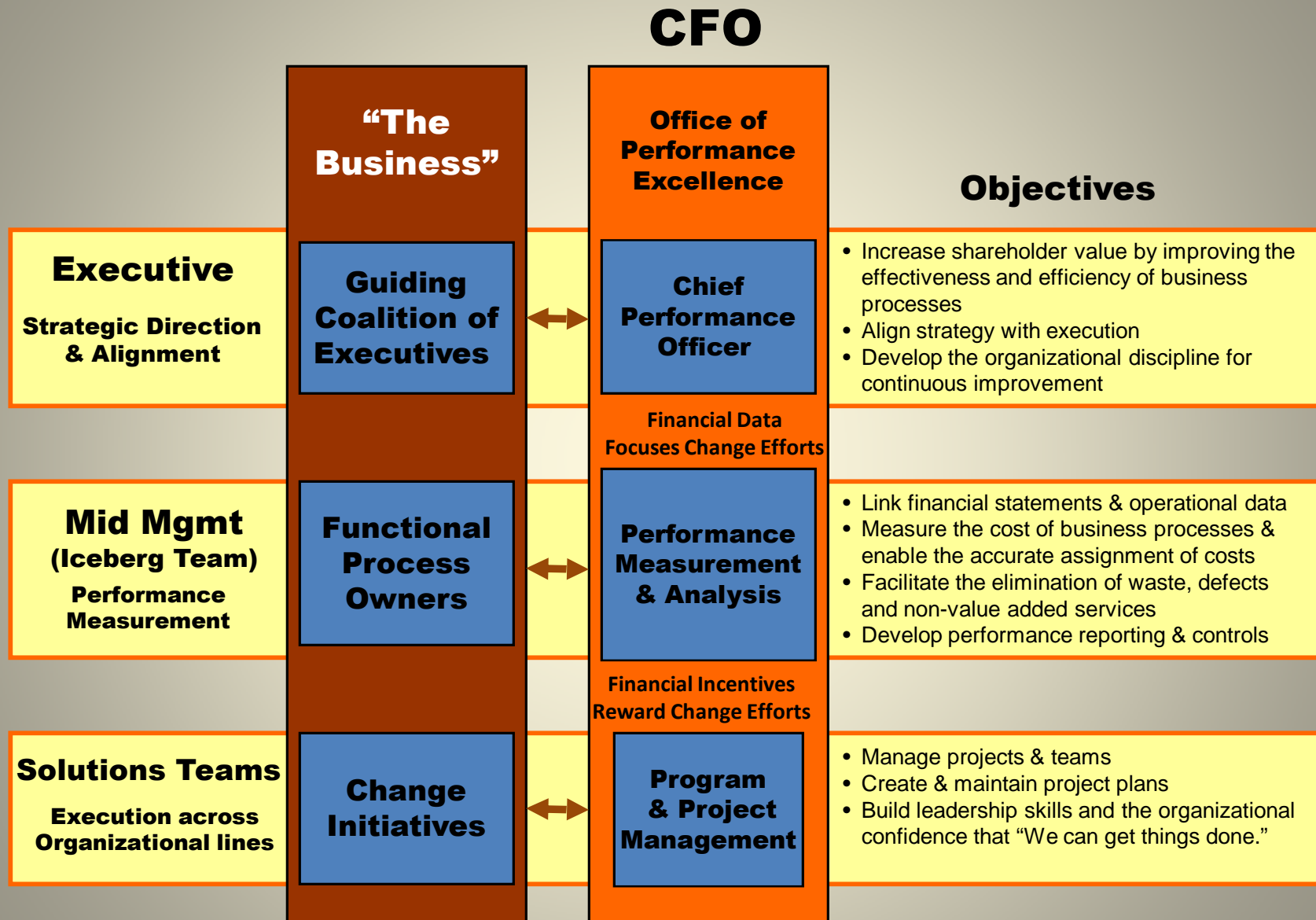
- Customer Centricity

- Profit profiling & segmentation of customers
- Apply customer profitability to category management, store & retail operations, and formats

- Technology Related Re-engineering

- Align technology deployment with business process re-engineering efforts
- Interface with IT team to build learning into new systems
- Identify any gaps
- Work with Performance Excellence Group to benchmark the Before & After states

Stage #1: Governing the Operational Excellence Strategic Theme



Steps to Achieving a Performance-Driven Culture

- **Office of Performance Excellence**

STEP #1: Deploy Activity Based Costing as a Comprehensive Performance Measurement Tool

- Shared Incentives
- Create an environment of Visibility & Accountability
- Agree on a way of keeping score and making fact-based decisions

STEP #2: Make analysis, governance & execution a core competency

- Develop linked performance measures
- Active review of relevant reporting
- Benchmarking & fact-based decisions
- Identify pain points that offer payback, enroll support and that will establish credibility once resolved

- **Iceberg Team (facilitated by the Office of Performance Excellence)**

STEP #3: Use Pain Points as pilots to build skills

- Immediate payback
- Builds momentum & credibility

- **Executive Team & the Entire Organization**

STEP #4: Link the full deployment to a “rule-changing” business win that:

- Has large financial payback
- Will earn the buy-in of the organization by solving a large problem
- Creates competitive advantage

START© Change Management Chart

LEADERSHIP ROLES:	Exec Sponsor & Chief Performance Officer	Chief Performance Officer		
		Business Analyst & Project Management Roles		Handoffs Back to the Organization
	STRATEGY	STRUCTURE	EXECUTION	ENDURANCE
Build Out of Change Management Tools & Infrastructure	<p>Check all that apply</p> <p>Leadership</p> <ul style="list-style-type: none"> <input type="checkbox"/> Executive Sponsor <input type="checkbox"/> Chief Performance Officer <input type="checkbox"/> Confront leadership issues <p>Enrolling Support</p> <ul style="list-style-type: none"> <input type="checkbox"/> Executive Summary Document <input type="checkbox"/> Shared Financial Incentives <input type="checkbox"/> Select Scorekeeping Tools <input type="checkbox"/> Pain Point Assessment <p>Project Scope & Scale</p> <ul style="list-style-type: none"> <input type="checkbox"/> Vetting & Decision Making <input type="checkbox"/> Business Case & Project Charter <input type="checkbox"/> High level process diagrams <input type="checkbox"/> Identify customer requirements & complaints 	<p>Check all that apply</p> <ul style="list-style-type: none"> <input type="checkbox"/> Sr. Business Analyst <input type="checkbox"/> Sr. Project Manager <input type="checkbox"/> Governance Structure <input type="checkbox"/> Action plan completed <input type="checkbox"/> Project team commissioned <input type="checkbox"/> Modeling / testing of performance measure tools <input type="checkbox"/> Early reporting environment defined <input type="checkbox"/> As-Is & To-Be Process Work & Value Stream Mapping 	<p>Check all that apply</p> <ul style="list-style-type: none"> <input type="checkbox"/> Formal rollout of performance measurement tools and methodology <input type="checkbox"/> Active review of relevant reporting intact <input type="checkbox"/> Use ABC for billing & cost allocations (if applicable) to create shared incentives <input type="checkbox"/> Project Management 	<p>Check all that apply</p> <ul style="list-style-type: none"> <input type="checkbox"/> Controls in place <input type="checkbox"/> Recognition / Rewards <input type="checkbox"/> Formal Training <input type="checkbox"/> Create any documentation <input type="checkbox"/> Project Post-Mortem <input type="checkbox"/> Refine reporting environment <input type="checkbox"/> Exec Summit to update strategy <input type="checkbox"/> Knowledge transfer from any consultants <input type="checkbox"/> Develop calendar for all continuity activities
	<p><input type="checkbox"/> Vetting & Approval of smaller projects & sub-initiatives</p> <ul style="list-style-type: none"> <input type="checkbox"/> Assign Project Manager <input type="checkbox"/> Project Charter Approved <input type="checkbox"/> Solutions team commissioned <input type="checkbox"/> Pain Point Analysis <input type="checkbox"/> High level process diagrams <input type="checkbox"/> Identify customer requirements & complaints 		<p><input type="checkbox"/> Identify & commission smaller projects supporting this Initiative</p>	
Implement Business Improvements Continuously	<ul style="list-style-type: none"> <input type="checkbox"/> As-Is & To-Be Process Work & Value Stream Mapping <input type="checkbox"/> Project Plan Completed <input type="checkbox"/> Approval of final solution <input type="checkbox"/> Update reporting environment based on information required for analysis 	<ul style="list-style-type: none"> <input type="checkbox"/> Project Management 	<ul style="list-style-type: none"> <input type="checkbox"/> Controls in place <input type="checkbox"/> Create any documentation <input type="checkbox"/> Refine Reporting environment <input type="checkbox"/> Update the Strategy Statement or Business Case as needed <input type="checkbox"/> Knowledge Transfer from any consultants <input type="checkbox"/> Develop calendar for all continuity activities 	
Six Sigma Track (if applicable)	<ul style="list-style-type: none"> <input type="checkbox"/> Assign Project Manager / Team <input type="checkbox"/> Define Stage <ul style="list-style-type: none"> <input type="checkbox"/> Project Charter <input type="checkbox"/> Define customer requirements <input type="checkbox"/> High level process map 	<ul style="list-style-type: none"> <input type="checkbox"/> Measure Stage <ul style="list-style-type: none"> <input type="checkbox"/> Data Collection Plan <input type="checkbox"/> Collect Data <input type="checkbox"/> Analyze Stage <ul style="list-style-type: none"> <input type="checkbox"/> Data Analysis <input type="checkbox"/> Process Analysis <input type="checkbox"/> Root Cause Analysis 	<ul style="list-style-type: none"> <input type="checkbox"/> Improve Stage <ul style="list-style-type: none"> <input type="checkbox"/> Solution Generation <input type="checkbox"/> Solution Selection <input type="checkbox"/> Implement Solution 	<ul style="list-style-type: none"> <input type="checkbox"/> Control Stage <ul style="list-style-type: none"> <input type="checkbox"/> Control Methods <input type="checkbox"/> Response Plan

Customer Centricity Strategic Intent

- **Define & Measure Performance**

- Proceed with Activity Based Costing to determine fully loaded costs & actual margins
- Measure Customer Profitability in Deciles
- Scorecards linking financial performance to operational data
- Create visibility & accountability through relevant reporting

- **Strategic Themes**

- Operational Excellence

- Proceed with Pilot Projects
- Value Stream Mapping & “Lean Out” inefficient & ineffective processes
- Identify what should be centralized vs. distributed

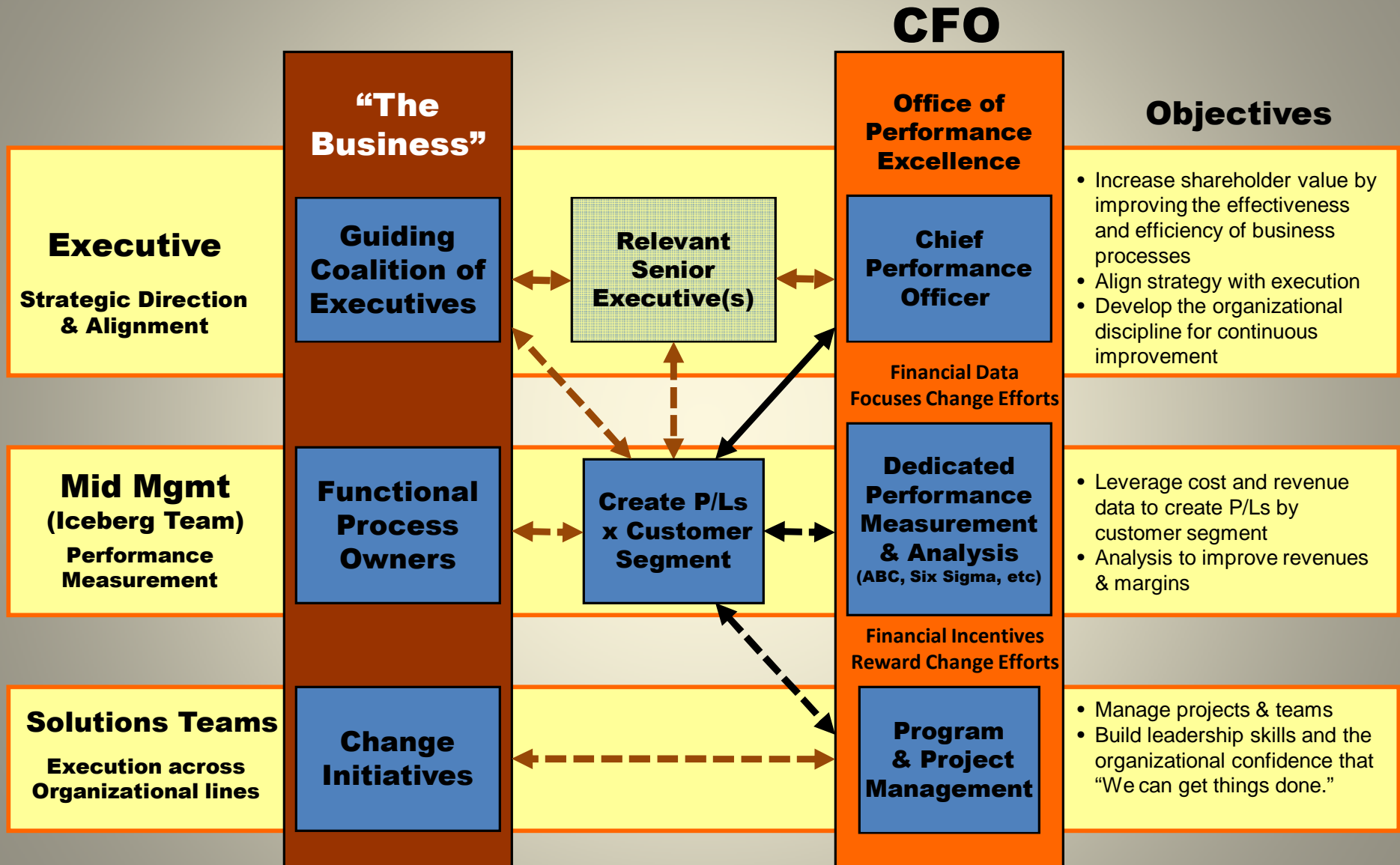
- **Customer Centricity**

- Profit profiling & segmentation of customers
- Apply customer profitability to category management, store & retail operations, and formats

- Technology Related Re-engineering

- Align technology deployment with business process re-engineering efforts
- Interface with IT team to build learning into new systems
- Identify any gaps
- Work with Performance Excellence Group to benchmark the Before & After states

Stage #2: Governing the Customer Centricity Strategic Theme



How well do we truly understand our business?

	Total	Decile 1	Decile 2	Decile 3	Decile 4	Decile 5	Decile 6	Decile 7	Decile 8	Decile 9	Decile 10
# of Customers	2,500,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Net Sales	16,607,188										
Pre DC Gross Profit	5,708,183										
Distribution Costs	324,129										
GP after DC	5,384,054										
Direct Wages	1,574,261										
Indirect Wages	178,828										
Benefits & Taxes	624,793										
Total WBT	2,377,882										
Other Store Expenses	921,921										
Store Rent	407,862										
Depreciation	411,554										
Advertising	122,759										
Administration	393,445										
Misc Gain/Loss	31,265										
Total Op Costs	4,666,688										
Op Earnings	717,366										
EBIT	743,364										
# Shares (Hypothetical)	200,000										
EPS	\$ 3.72										
P/E Ratio (Hypothetical)	3										
Share Price	\$ 11.15										

Steps to Maximizing Segment Profitability

1. Define fully-loaded costs x product at the transaction level
2. Calculate customer profitability in deciles
 - Which customers are profitable and why?
 - Which customers are not profitable and why?
3. Study, learn and then segment by need, behavior and profitability
4. Drill into segmentation
 - How can we increase segment profitability?
 - What are the sub-segments and how should they be managed
5. Create a P/L by segment, determining (with tools) how each segment drives shareholder value
6. Develop Customer Value Propositions for each segment
7. Manage segments as a portfolio of customers
 - Assign a Customer Segment Managers
 - Customer Segment Managers are empowered to coordinate promotions across categories & stores

Steps to Achieving a Performance-Driven Culture

- **Office of Performance Excellence**

STEP #1: Deploy Activity Based Costing as a Comprehensive Performance Measurement Tool

- Shared Incentives
- Create an environment of Visibility & Accountability
- Agree on a way of keeping score and making fact-based decisions

STEP #2: Make analysis, governance & execution a core competency

- Develop linked performance measures
- Active review of relevant reporting
- Benchmarking & fact-based decisions
- Identify pain points that offer payback, enroll support and that will establish credibility once resolved

- **Iceberg Team (facilitated by the Office of Performance Excellence)**

STEP #3: Use Pain Points as pilots to build skills

- Immediate payback
- Builds momentum & credibility

- **Executive Team & the Entire Organization**

STEP #4: Link the full deployment to a “rule-changing” business win that:

- Has large financial payback
- Will earn the buy-in of the organization by solving a large problem
- Creates competitive advantage

Technology Strategic Theme

- **Define & Measure Performance**

- Proceed with Activity Based Costing to determine fully loaded costs & actual margins
- Measure Customer Profitability in Deciles
- Scorecards linking financial performance to operational data
- Create visibility & accountability through relevant reporting

- **Strategic Themes**

- Operational Excellence

- Proceed with Pilot Projects
- Value Stream Mapping & “Lean Out” inefficient & ineffective processes
- Identify what should be centralized vs. distributed

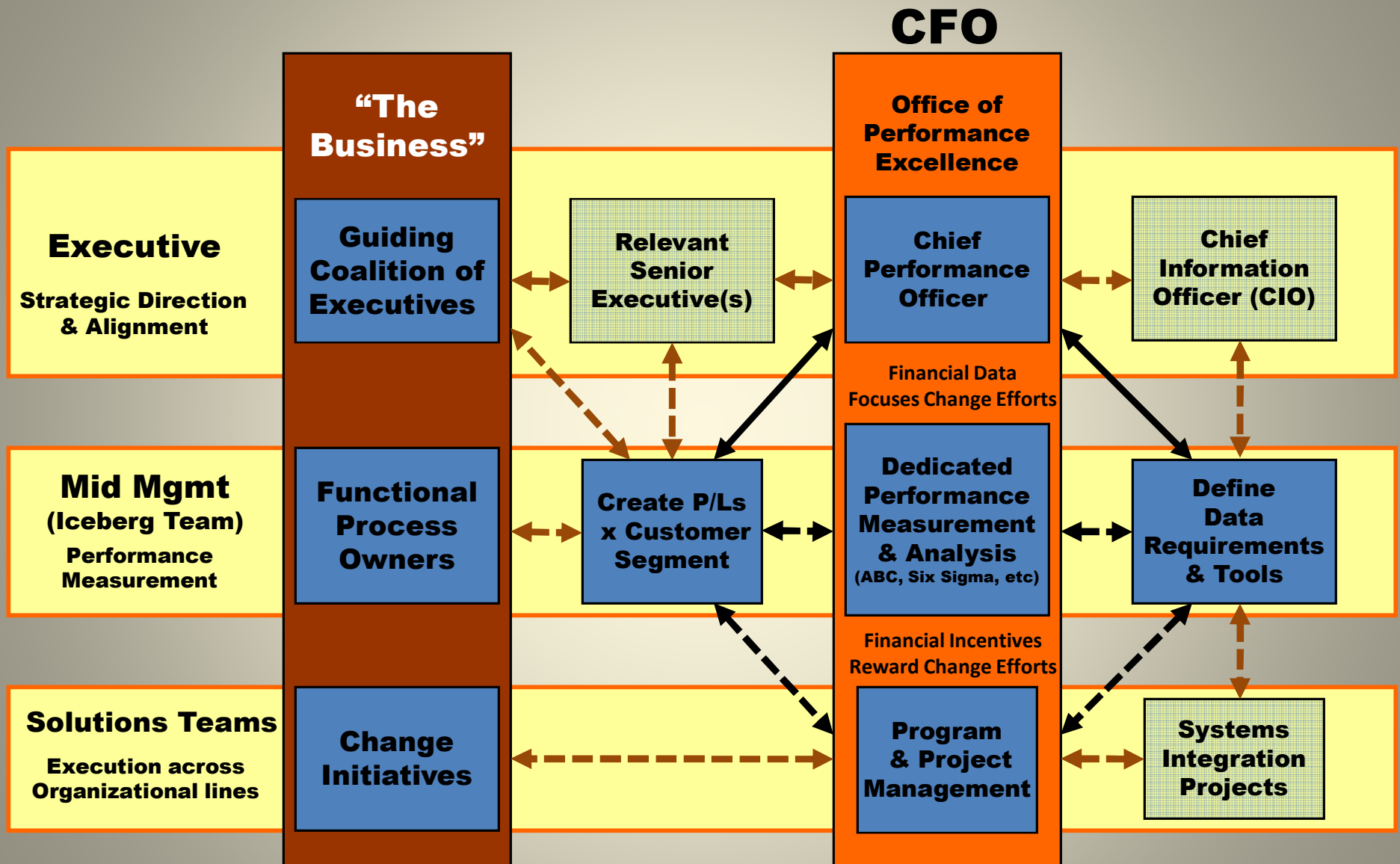
- Customer Centricity

- Profit profiling & segmentation of customers
- Apply customer profitability to category management, store & retail operations, and formats

- **Technology Related Re-engineering**

- Align technology deployment with business process re-engineering efforts
- Interface with IT team to build learning into new systems
- Identify any gaps
- Work with Performance Excellence Group to benchmark the Before & After states

Stage #3: Governing the Technology Strategic Theme



Teams & Leadership Roles

- **Executive Sponsor** – CFO and/or CEO
- **Leadership Roles within the Office of Performance Excellence**
 - **Chief Performance Officer** (*Interfaces with the Executive Team*)
 - **Dedicated Performance Measurement & Analytics** (*Interfaces with the Iceberg Team*)
 - Activity Based Costing & Value Stream Mapping
 - Customer Profitability Analysis
 - Technology & System Requirements
 - **Dedicated Project/Program Management** (*Facilitates & Supports Solutions Teams*)
- **Matching Teams from “The Business”**
 - **The Executive Team**
 - Permanent Team of “C” level executives
 - Provide strategic direction & alignment through linked, cascaded scorecards
 - Regular meetings facilitated by the Office of Performance Excellence
 - **The Iceberg Team**
 - Permanent Team of Middle Management Process Owners
 - Provide a cross-functional view of the organization (*Interfaces with the Executive Team*)
 - Regular meetings facilitated by the Office of Performance Excellence
 - **Solutions Teams**
 - Exist only for the life of the project
 - Composed of Subject Matter Experts
 - Project teams are coordinated & project plans maintained by the Office of Performance Excellence

CEO's Objectives x Theme x Perspective

OBJECTIVES x Theme & Perspective	Comprehensive Performance Measurement	Operational Excellence	Customer Centricity	Technology Related Re-engineering
Financial Perspective	<ol style="list-style-type: none"> 1. Link financial & operational metrics with the objective of improving both 2. Deploy ABC with the intent of accurately assigning costs, benchmarking performance & managing margins 3. Determine fully loaded costs at the product level with the intent of pricing ourselves correctly 	<ol style="list-style-type: none"> 1. Assign costs internally based on ABC to create incentives for finding efficiencies 2. Prioritize, quantify and vet opportunities having the biggest impact on profitability 	<ol style="list-style-type: none"> 1. Develop P&Ls by Customer Segment 2. Measure ROIC & Shareholder value based by Customer Segment 	<ol style="list-style-type: none"> 1. Inventory data requirements to yield an integrated view of the business 2. Assess tools for optimizing profitability
Customer Perspective	<ol style="list-style-type: none"> 1. Define & collect data to track revenues and profitability x Customer Segment 2. Clarify and understand how we segment customers 	<ol style="list-style-type: none"> 1. How do we manage customer segments differently and what is the cost/benefit? 2. Are customers being charged for value added services? 3. Optimize customer facing programs based on learning 	<ol style="list-style-type: none"> 1. Re-Segment & segment more deeply based on customer profitability 2. Measure and respond to attrition & untapped market share x customer segment 	<ol style="list-style-type: none"> 1. Assess & Acquire Marketing Segment & Automation Tools
Internal Business Process Perspective	<ol style="list-style-type: none"> 1. Create a culture where people are accountable for results 2. Develop an integrated view of customers, categories, store formats, and support functions to accurately measure margins 3. Ensure an active review of relevant reporting 	<ol style="list-style-type: none"> 1. Establish a Performance Excellence Group & Change Governance infrastructure 2. Using ABC, identify and eliminate waste & productivity gaps throughout the business 3. Establish controls on key business processes 	<ol style="list-style-type: none"> 1. Apply Customer Segment Profitability insights to Marketing, Merchandising & Retail Operations 2. Develop skills to defend & increase market share 	<ol style="list-style-type: none"> 1. Assess & Acquire Merchandising, Store & Retail optimization tools
Learning & Growth Perspective	<ol style="list-style-type: none"> 1. Determine KPI's linking each department to customer segment profitability 2. Leverage business intelligence in local business units 3. Create the ability to compare & learn from each other 	<ol style="list-style-type: none"> 1. Define Analytical Roles to support Ad Hoc & formal requirements 2. Make it easy for good ideas to be brought to life 3. Develop leadership and critical thinking skills at all levels 	<ol style="list-style-type: none"> 1. Assess contribution of each department to customer segment profitability 	<ol style="list-style-type: none"> 1. Capture data to support the various tools 2. Standardize & automate reporting

Steps to Achieving a Performance-Driven Culture

- **Office of Performance Excellence**

STEP #1: Deploy Activity Based Costing as a Comprehensive Performance Measurement Tool

- Shared Incentives
- Create an environment of Visibility & Accountability
- Agree on a way of keeping score and making fact-based decisions

STEP #2: Make analysis, governance & execution a core competency

- Develop linked performance measures
- Active review of relevant reporting
- Benchmarking & fact-based decisions
- Identify pain points that offer payback, enroll support and that will establish credibility once resolved

- **Iceberg Team (facilitated by the Office of Performance Excellence)**

STEP #3: Use Pain Points as pilots to build skills

- Immediate payback
- Builds momentum & credibility

- **Executive Team & the Entire Organization**

STEP #4: Link the full deployment to a “rule-changing” business win that:

- Has large financial payback
- Will earn the buy-in of the organization by solving a large problem
- Creates competitive advantage

Final Outcome

*The organization
will resolve
immediate pain points
in a self-funding way
while developing
the organizational discipline
for continuous improvement*

- As evidenced by:
 - Lower SGA costs
 - Weeding out DOWNTIME
 - Defects
 - Overproduction
 - Waiting
 - Not utilizing people's talents
 - Transportation
 - Inventory
 - Motion
 - Extra processing
 - A more focused, integrated, right-sized company that is able to make and execute better decisions in less time
- Resulting in higher margins, greater profitability, competitive advantage and increased shareholder value

Getting Started: Forming a Guiding Coalition of Visionary Executives

Eight Weeks to Excellence

- **Session #1: “What is a ‘Performance-Driven Culture’ and how do I get one?”**
 - Date & Time TBD
- **Session #2: Transforming Leadership: A Guiding Coalition of Visionary Executives**
 - Date & Time TBD
- **Session #3: LEADERSHIP ROLES in the Performance-Driven Culture**
 - Date & Time TBD
- **Session #4: STRATEGIC INTENT in the Performance-Driven Culture**
 - Date & Time TBD
- **Session #5: STRUCTURE in the Performance-Driven Culture**
 - Date & Time TBD
- **Session #6: EXECUTION in the Performance-Driven Culture**
 - Date & Time TBD
- **Session #7: ENDURANCE in the Performance-Driven Culture**
 - Date & Time TBD