Exhibit 58

Transform "Business Intelligence" Into: "Quantum Profit Management"[1]

I. **<u>Introduction</u>**

A. Objectives:

1. Provide a management team with food for thought about the state of the company's BI capability.
2. Stretch thinking to realize that BI has to become a multi-step, "intelligence-bridge" process which has been pioneered and exemplified by Waypoint Analytic's "Quantum Profit Management Service" (QPMS) for distribution firms.
3. Sell distribution chains on spending a day with me at their HQ on all of the topics in this document to better decide whether they should make, rent or rent/buy the QPMS capabilities.
4. Convince the most progressive distributors that it is faster and economically more advantageous to subscribe to QPMS than to try and copy our ground-breaking analytics and process with their own, one-off, internal duplicative effort.

B. Quantum Profit Management (QPM) is a 5-part, integrated umbrella:

1. <u>Quantum Profit Analysis (***QPA***)</u> is Waypoint's unique cost-allocation and modeling capability that has evolved from work with many types of distributors (and master-distribution facilities).
2. By being able to calculate the incremental net profit or losses on every line-item pick regardless of the type of order it is (direct, indirect, warehouse, counter, web/retail) <u>a series of profitability ***ranking reports***</u> (and "whale curves") can be generated.
3. <u>To build on the ranking report winners and transform the losers, "meta-knowledge</u>" about business models from many distribution channels <u>has created a set of generic, tactical, ***"profit-improvement plays"***</u> that will help distributors to manage the extremes of the profitability reports dramatically better.
4. Focused, analytical, diagnostic and ***<u>tracking reports</u>*** for the plays (e.g. our "5 x 5 sales rep dashboard").
5. Educational and ***<u>Change Management Aides</u>*** to help successfully run the plays across all locations. Every front-line service employee will be able to explain how they are creating more economic value for target customers and customer niches at a lower total cost to increase profits. And, how every stakeholder, starting with them, will achieve better economics.

C. **<u>How to score your company's BI effectiveness</u>** and potential interest? Throughout this document there are many discussion questions including <u>two sets of close-ended, specific, score-answer questions (16 pairs in all):</u>

1. "How important is the specific issue or question to your company: "A,B,C" with "A" being very important and "C" being not important. (You may opt to score them 0 to 10 with "10" being most important.)

[1] For more on QPM go to www.quantumprofitmanagement.com or www.merrifield.com/quantum.

2. “How well is your company doing on an “average implementation” (AI) basis with the specific issue being discussed: score your AI from: 0 to 100%.

D. I would welcome the chance to further discuss this document either before or after your own internal discussion and ratings. Whether your firm eventually subscribes to QPMS or not, the goal is to dramatically boost your firm’s strategic informational insights.

II. <u>General Assumptions, Objectives and Some Questions:</u>

1. We are limited in our thinking and actions by the metrics we use. If we can apply “next-level” questions, thinking and then metrics, won’t we start to see opportunities we haven’t seen before?
2. As a student progresses from multiplication tables to algebra problems, etc., each next-level requires new vocabulary and problem-solving concept tools. What vocabulary and concept tools does our firm need to get to the next-level for defining, measuring, managing how we create value, lower costs and therefore improve profits?
3. Corollary: will repeated confrontation with next-level metrics help us to start seeing things differently? For example: a “good customer” based only on gross margin dollar contribution is found to be continually at the bottom of a customer profitability ranking report losing a magnitude of $50,000, because of huge “cost-to-serve” (CTS) activity from many small orders. *How long will we (or a branch manager) look at our biggest losing accounts’ numbers before we start co-creating with them ways to dramatically lower both selling and buying transactional costs for mutual gain? (Why would a sales rep assigned to the account with incentive pay based on gross margin dollars NOT want to risk any change with a losing customer? What’s the incentive plan cure?)*
4. Where will the next-level, right questions - about what is strategically important to measure beyond what we might already be measuring – come from?
    a. From veterans within our company;
    b. And/or, from outsiders who have:
        i. Exposure to applying strategic information thinking to many different distribution channels and business models within those channels to then…
        ii. Develop action plays and change management tools for achieving sustainable improvements in profitability?
5. We probably don’t need more hind-sight or current-sight metrics, but could use *more in-sight and fore-sight metrics; how do we find these?* For example:
    a. What is the next-level for insights about a distribution location’s intersection of its most profitable customers that are buying the most profitable items? (*Aren’t these two, best sub-sets interdependent upon one another to get to “critical mass sales volume”? How? So? What next?)*
    b. If it were possible (and it is!) to measure and rank by estimated profitability – customers, items, suppliers, sales territories – what then are the deeper causes and stories behind why the extremes – both most profitable and biggest losers – are that way?
    c. What next-level, innovative plays and metrics can we aim at the extreme winners and losers on these reports?

    d. The A-C importance rating for your company on developing effective profitability ranking reports?____
    e. Your company's (average implementation) AI percentage score for thoroughly maximizing sales of most-profitable items to most profitable customers?____
6. Just because something isn't readily measurable doesn't mean that we can't creatively come up with a way to measure something with a good-enough accuracy to be powerfully useful.
    a. Quick and dirty first approximations can be improved with iterations.
    b. We may need, however, to channel the ingenuity of Eratosthenes who calculated the circumference of the earth to 99%+ accuracy around 240 BCE by: reading in the library; measuring the angle of a shadow at noon on June 21st; and doing a geometry problem. (This estimate was lost to Columbus who used one that assumed the world was only 6000 miles in circumference. The downside of his going in a new direction was discovering an entire New World!) What new-world insights will come with QPM thinking?
    c. *What strategic immeasurables would your management team like to know?*
7. Most humans see ***efficiency*** improvement opportunities starting with the specific job at hand (micro-context). Then, they gradually extend their thinking for how to make things more efficient to the wider, macro context: department, inter-department (processes), company and inter-company. Some look for how other, similar businesses do the same things to identify "best practices" to copy at home.
8. This "best practice" efficiency quest seldom, however, questions whether we are being ***"strategically effective".*** *Are we doing the right value-added things for the right customers?* "Best practices" like "zero errors", for example, do save both the company and the customer costs. But, plenty of the customers served will still be unprofitable forever given that they are growing no where, and we have a service model that over serves them with a cost that exceeds the margin dollars in their orders and their annual spend. *And, we still don't know what the rest of the best-service, value-equation metrics are for the profitable and potentially profitable best customers in our #1 best niche for a profit center.* We should first do strategic effectiveness analysis and plays, then secondly make them most efficient.
    a. How important is it (A-C) to know best, strategic effectiveness diagnostics and follow up plays for each branch before pursuing efficiencies? _____
    b. What is the firm's AI percentage score for:
        i. Best strategic-effectiveness diagnostics and play execution_____
        ii. Best practice efficiency plays (aka, fine-tuning the past, whether it involves profitable or unprofitable customers and products) that have been formally pursued by the company?______
9. A few, super successful firms are able to perpetually look at *transformational opportunities that involve new business or supply chain models for doing new or old strategic objectives.* Wal-Mart, Fastenal and Grainger have, for example, all had great organic growth runs in distribution (with surprisingly little imitation), because of pioneering new models and maintaining a culture for being able to perpetually innovate upon them. The super-losing elements that a distributor finds at the bottom of profitability ranking reports for – items, suppliers, customers and sales territories – all present possible transformational (sometimes inter-firm, supply-chain) solutions.

a. How important is this topic/possibility to your firm? ____
b. What is your AI score for doing breakout business model innovation?_____

10. On a grid with column headings having (left-to-right; micro-to-macro): "job, department, inter-department, company, supply chain". And then for horizontal headings (going vertically down the grid): "efficiency, effectiveness and transformation". In what boxes are we asking catalytic questions, and *what new, most-valuable metrics have we created (or do we need) to do a better job in those boxes?*

11. Another way of looking at topic #10, is to ask what are; and where would we plot our current portfolio of innovative initiatives? An alternative plotting scheme is to have X and Y axes cross in the middle of a page. The X axis would be labeled "reactive" at the far left and "proactive" at the far right. The Y axis would be "transformational" at the top and "incremental" (efficiency) at the bottom. Name and plot your current initiatives in the four quadrants.
    a. How important is it to know and upgrade your current portfolio of innovation activities from too few in the bottom left hand corner (reactive, incremental) to more that are proactive and significant?______
    b. What is your AI score for innovation efforts? _______

12. Hypothetical situation/question: imagine if all profit center managers (including reps *who had incentives on net profitability of their accounts*) had access to profitability ranking reports for – items, suppliers, customers and sales territories – could many more associates start to see higher level profit improvement opportunities?

13. To add to #12 above, if associates were further provided with generic tactical plays that had been designed and successfully run by other types of distributors with line-item profitability knowledge would that help the firm move to next-level performance?
    a. How important does this scenario (12 and 13) sound for being at least thoroughly studied and understood? _______

14. Does the scenario in 12 and 13 sound a bit confusing or unbelievable? (Assumption: your firm is run on "gross margin dollars" and "gross margin percentages" with little to no allocations for "cost-to-serve" (CTS) allocated to items, transactions or customers to determine the net profitability of any of those elements.) If so, isn't it common that some of our biggest, best questions/ideas will challenge our group-thinking, mental models?
    a. Good questions should be initially confusing to some degree to most associates, because – conversely – if everyone got the idea right away it would be an old idea in new clothes with little upside potential. Just as multiplication test speedsters are uncertain about what to do with their first algebraic word problem, managers should be puzzled by looking at their first sales territory profitability ranking reports and the idea of paying reps on improving ("delta") the profitability of their customers and their overall territory.
    b. Good questions and ideas should also be scary to some degree, because any change that isn't a bit scary isn't a big enough change in value offered and/or costs reduced to make a difference in what ever we are currently doing.
    c. Because good, new ideas do take time to understand and comfort-zone, we should not rush to answers for the best questions, but live with and into them for awhile. This will allow us to:

i. Have different conversations with different people and notice different information than we would have done normally with out our group-thinking challenged.
ii. Have one great idea by starting with a lot of good ones that either get refined to greatness or weeded as we live with and into them.
iii. *Change management* requires not only new metrics and tracking reports for new plays confronting us continually, but lots of patient, repetitive communication and teaching. *Who can help with this?* Coaches from outside the organization who have done the next level plays many times and in many places before? Could they train the trainers via webinars as needed?
iv. How important is it for your company to upgrade its "change management capability" to become a core competence? ____
v. What is your current AI percent for "change management"?____

15. We must write down what our success assumptions are and make sure that others share the same assumptions and that none of them are - to some degree - out of date with what is going on in the marketplace. *Stages of life-cycle behavior and needs amongst customers and suppliers do change. And* a 25-year, global credit bubble has popped to usher in *a long de-leveraging process for our society requiring what new success guidelines?.*
    a. Do any of our unspoken success assumptions need to be updated? Which ones? How much are we, like generals, fighting past wars rather than preparing for future ones played under different rules? What would be the best, most constructive way to overhaul the group-think of our managers and sales reps?
        i. How big a problem/opportunity is up-dating group-think? _____
        ii. How progressive is the thinking behind our AI activity?_____
    b. We are now operating in a post, global, credit-bubble, de-leveraging era:
        i. *Can we sell our way out* of unacceptable profitability when there is 20%+ too much capacity in our channel and too many others are already out shooting prices at accounts in which they don't have the main share of business?
        ii. Where is our value and/or cost edge in that scenario? When presented with last-look to meet a price and keep the business:
            1. Do we know our incremental costs to service the business to know whether we are making a loss or a profit at old and now lower price?
            2. If our sales reps have incentives to maximize gross margin without any regard to the incremental cost to serve or the incremental costs for working capital (receivables and inventory) for the account, couldn't we sell our way into a bigger financial hole?
        iii. *Can we shrink our way out* of un-profitability by cutting all costs across the board into the bone? *Or should we downsize strategically and surgically (account by account) by completely exiting from structurally losing (customer/location) niches in order to stay strong in the niches where we are #1 or #2 and do generate some profits?*

    iv. How important is it to re-tune our group-think assumptions for how to succeed in a structurally-downsized, demand era with slow/flat growth for some time? _____

c. If 90% of our sales volume is now on commodity goods which too many other competitors also have, can we sell them profitability on a reverse auction, commodities-for-a-price (only) basis?

    i. If customers believe that they should be co-creating with us "lower total procurement cost"[2] supply contracts for the 90% of their spend, which is for commodities, then *how well are we helping them to actually measure how our best-for-them, service-value equation does in fact improve their: downtime to up-time; work (billed) productivity of their people; and percent of their needs/jobs getting done right the first time and on time? Are we, in fact, saving them total productivity dollars that well exceed are higher-than-competitors' price costs?*
    ii. How well do we measure how we achieve and sell our service value story?
    iii. How important is it for our company to achieve noticeable service value that lowers customer's TPC and then be able to sell that benefit convincingly? ______
    iv. What is our AI percentage for ii above? _______

III. **Executing Strategy With: "Strategy Maps and Scorecards":**

1. Most executives think that they have a pretty good strategy, but the majority think that executing the strategy well and persistently are the bigger problems. What kind of "balanced scorecard metrics" are necessary, but missing within the company to keep everyone focused on, aligned with and motivated by strategic intents?
2. *Do we have a "strategy map" which all employees would: recognize, be able to explain and show how what they do links upward to final financial outcome goals?*
3. Can the company match Waypoint Analytic's "quantum profit management service" (**QPMS**) total-cost-benefit ability to *plug the gaps for: strategic information insight; tactical plays; and tracking and personal linkage reports?*
    a. *How important are strategic maps, bottom-up linkage knowledge and the metrics to make it all happen?______*
    b. *What is the firm's current AI percentage for this objective?_____*
4. Rather than using BI tools to just automate extra calculation steps that managers are already doing, how do we also think about our business in new ways to discover new metric measurement objectives? For example:
    a. The "service profit chain" is a strategy map framework that universally applies to distributors. What are our metrics for each step: "people => service quality metrics for each customer niche pool => profits? The model assumes:
        i. Engaged front-line service people (*what specific engagement metrics?)…*
        ii. Will work together to make *(which?) 8+ service metrics improve…*

[2] For more on "TPC" see articles 4.1 and 4.2 at merrifield.com, and Exhibit 3 at the site on how 8 service metrics lower one or more of the 11 elements of TPC.

iii. Tuned to which specific customer categories and *sizes/strata* of customers? What are the gross margin dollars per month boundary lines for what strata and different service value offerings or business model?
   1. Assume four main business model strata: (web) retail "D", wholetail "C" (e.g. Fastenal or Grainger stores); tele-sales "B"; and large accounts, "A's", that will still support the cost of outside sales rep coverage.
   2. How many active (profitable and unprofitable) customers per strata?
   3. What are the approximate average-order size and annual margin volume per customer boundaries for the four strata?
   4. How many chronically small, money-losing customers (B-D) do we still have assigned to sales reps for which the margin dollar potential can't ever support a meaningful, rep-relationship, call pattern?
   5. *How many reps do we need to cover all accounts - in mature, if not consolidating industry sectors - that currently are or potentially could cover a minimum number of sales rep calls per year?*[3]
   6. What other standard services may have to be unbundled and charged for when taking care of "B-D" accounts?
   7. What type of alternative proactive marketing contact activity can we experiment with to serve B/C accounts?
   8. What kind of additional, free, extra services are appropriate for super-A's (Harrah's, the casino chain, has 7 levels within their A strata of customers)?

iv. If the service quality levels are distinctively high and more consistent than competitors then the company will enjoy better customer satisfaction, retention and pricing power than our "we have good (unmeasured) service" competitors. True or false?

v. In summary:
   1. How do we define and measure our #1, most-profitable, customer-niche pool?
      II. How important is this objective? _____
      III. What is our AI percentage? ______%
   2. What is our service value equation based on specific metrics that allow us to deliver the best total service value to each target niche pool of customers?
      II. How important is it for our firm to improve our people and service metrics? A-C:_____
      III. What's are AI percent for doing:
         i. People engagement (metrics)?_____%
         ii. Service excellence (metrics)?______%
         iii. Customer niche focus (metrics)?____%

5. A big goal of "strategy maps and balanced scorecards" is to **improve "corporate alignment":** what is that*? If we ask any manager: "what checklist do we use to make*

[3] http://www.merrifield.com/articles/4_11.asp

sure that we have holistically thought through an implementation program to insure "total corporate alignment"? What would they say?

6. What are the chronological steps to **leading corporate activity change programs?** And, how do we measure the quality, consistency and alignment of each of the steps? QPMS has, for example, metrics that score the integrity of each step of my *"kinetic chain"* which can, in turn, be used for holistic, change-management planning. The kinetic chain has seven steps: 1) Leadership; 2) Strategy; 3) Support systems; 4) Aptitude and attitude of people; 5) Education to skill up the people continuously (mastery); 6) Tools; and 7) Incentives. Review these steps in detail at this link: http://www.merrifield.com/exhibits/Kinetic_Chain_Ex_16.pdf .
7. As a hypothetical exercise, how is your company doing at both the quality of and the internal alignment amongst each of the 7 steps in the kinetic chain?
    a. Importance? ______
    b. AI execution percentage?______

IV. SPECIFIC HOW-TO INFORMATIONAL INSIGHT QUESTIONS/TOPICS:

1. How do we come up with an effective cost-modeling approach of optimum complexity to determine a close-enough-to-be-useful estimate of how much profit or loss is occurring on every line-item on every transaction of every type (direct, indirect, warehouse, counter, web, satellite branch counter)? (Waypoint's methodology for this is called **"Quantum Profit Analysis**" or **QPA**.)
    a. Importance of this objective? ________
    b. Current AI percentage score? ________
2. If we could then rank – customers, items, suppliers, sales territories – from most profitable to biggest losers, what would we find and be able to deduce from the most extremely profitable and losing elements?
3. *What next-level reporting tools should we develop to guide what next-level, profit improvement plays to protect and grow our most profitable elements and transform our biggest losing elements into winners?*
4. By example: Rather than trying to muscle into new business customer and product segments, should we *first renew and expand our core?*
    a. How do we measurably zero in on our most profitable customers that make our most profitable products?
        i. How many customers are there in what specific customer niche pool(s)? What is their current operating profit percent of sales?
        ii. What are top X most popular items that these customers are buying? What is our current average inventory investment in these items?
        iii. How much would sales/order-size/profits on these items increase (and how quickly) if we increased our average investment in them by 10 or 20%?
    b. *How do we then exhaust all over-looked cross-selling opportunities within the core intersection(s) of customers and products to generate a magnitude of yet 20% more free, cash-flow, bottom line profit from it?* What analytical reports and new "profit-improvement, program plays" do we need to make this happen?
    c. How important is doing more with the core? _____
    d. What is our current AI score for more-to-the-core programs? _____

5. What holistic, change-management - thinking, analytic tools, educational aides; and virtually available coaching - will we need to make big change happen successfully?
    a. How successful have we been at fine-tuning the past v. attempting to do some of the bigger, bolder changes that come out of Waypoint QPMS insights?
    b. Would it be helpful to have virtual (change) management support from Bruce, Randy, and other outside coaches and fellow Waypoint users through go-to-meetings in which we all are looking at the same dynamically referenced company information from Waypoint?
    c. How does QPMS help a company to *break big-change challenges into small, experimental, low-risk, bite-size steps?* (A: Read my article: "Think Big, Act Small…", and realize that *Waypoint's ranking reports allow the company to nibble at extreme winner/loser edges one element at a time. No need to jump into a new river with both feet.)*
    d. How important is it for the company to increase its capacity for doing significant change management? ________
    e. What is our current AI percentage for change management? _______
6. *Given that most independent distributors share common underlying processes and purposes, do we have to invent the answers/capabilities for all of these questions or can we out-source them to a virtual office of strategic development and measurement to get quickly comprehensive benefits for a low, shared cost?*

The Scorecard for this exhibit is at:
http://www.merrifield.com/exhibits/Ex58_SCORECARDindividual.pdf; and
http://www.merrifield.com/exhibits/Ex58_SCORECARDsummary.pdf.

THE ANSWER TO THE LAST AND ALL PRECEDING QUESTIONS IS TO SUBSCRIBE TO WAYPOINT ANALYTIC'S:

"QUANTUM PROFIT MANAGEMENT SERVICE"

(big chains may have the extra questions below)

Contact Bruce Merrifield (bruce@merrifield.com or 919-357-2372) to set up a management team demo of the service through a go-to-meeting format. Or, in some special cases, *have Bruce pay an on-site visit to do a day long "Strategic Information Insights" audit and review.*

BIG, DISTRIBUTION-CHAIN QUESTIONS:
1. What if a big chain has already made a big investment in in-house staff who is (or has tried) mastering activity-based costing with traditional on-premise, acquired software, "BI" tools like Cognos, Acorn Systems, etc? (*A: Negotiate a day-long, on-site benchmarking-with-Waypoint session with Bruce and go-to-meeting demos with Randy as needed with the full intent of knocking off all that might be learned.)*
2. What if the staff thinks that – in spite of their big backlog of stuff – they can knock off most of what Bruce and Randy have and will continue to dynamically create?

3. What are the staff's best-worst-likely estimates for time and internal cost to duplicate all of the most valuable ideas?
4. Is accomplishment a certainty given superficial, to-date, understanding of the entire QPM service process?
5. What then would the opportunity costs be for:
   a. Staff not working on all other backlog items?
   b. The delay of putting QPMS to work by X months for Z estimated internal cost? (A: Do the rent-now, for one location at a time v. build-for-eventual-deployment-X-months-down-the-road calculations and consider doing BOTH. Subscribe to Waypoint quickly and affordably for a few test locations while the team tries to catch up and keep up with the Waypoint offering. And, negotiate a rent-to-buy an on-premise license for Waypoint as a fall back option.)

CONTACT INFORMATION:

Bruce Merrifield; bruce@merrifield.com; 919-357-2372; Boston, MA; www.merrifield.com

Randy MacLean; CEO Waypoint Analytics. rmaclean@ultra-plan.com; 623-434-8933
Phoenix, AZ, www.waypointanalytics.com/info; www.quantumprofitmanagement.com

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