

What we've learned in our first two years

A REPORT ON FIRSTPAK™

MAY, 2001



Introduction

In 1997, AICC began exploring how members could legally form alliances which could compete for business on a multi-location basis. Initially, this was regarded as a defensive move, a means of protecting against some customers move to national, single-source suppliers. Internally, this AICC program was termed “joint selling entities.”

Working with AICC’s legal counsel, a business model defining how joint selling entities would work was developed. This model was then submitted to the United States Justice Department and the Canadian Bureau of Competition for review. After being accepted by both AICC proceeded to develop a marketing identity for its joint selling program.

The name FirstPak was chosen as a “brand name” to be freely used by AICC members for marketing to present and potential customers the joint selling of the membership’s more than 650 sheet plant and corrugator locations. In the spring of 1999, the FirstPak concept was introduced at AICC’s meeting in Boca Raton, Florida. Shortly thereafter, this was followed up with an explanatory booklet detailing the mechanics of the program.

What is FirstPak™

FirstPak is a business structure which provides the legal framework for one AICC member to partner with one or more other independents to satisfy the needs of a multi-location customer.

By definition, a FirstPak customer is one whose geographic needs are larger than a single AICC member can fulfill on his own.

How a FirstPak group operates

1. The “lead member” identifies and contacts the potential customer.
2. The lead member qualifies and selects the other (partner) members of the group. (The customer facility being subcontracted must be outside of the area served by the lead member.)
3. Partner members provide individual pricing information to the lead member. Only the lead member knows these prices and only the lead member negotiates selling prices with the prospective customer.
4. All transactions are completed between the customer and the lead member.
5. The lead member invoices the customer for the services and product provided and pays the partner members as sub-contractors.
6. Various joint selling FirstPak groups are free to compete with each other. AICC Headquarters does not recommend partners but can help in explaining the process.
7. Pricing and other business practices may not be shared. Different FirstPak groups compete with each other.
8. Each FirstPak group will be independent of every other FirstPak group. The makeup of groups will not be identified to the AICC nor will any one group identify its existence or its membership to any other FirstPak group.
9. Participation in the program or in any group will be voluntary and can be terminated at anytime by any member, subject to the rights and obligations of parties to a contractual obligation.

But, this does not exclude other ways of doing business. There may be many other legal ways to handle multi-location customers, including variations on one or more of the steps above. The FirstPak model as defined above is, however, the only model approved by the US Department of Justice and the Canadian Bureau of Competition with some modification. Members who wish to operate outside of these guidelines should seek the advice of legal counsel to prevent potential violations of antitrust laws.

Now, two years after its inception, AICC has commissioned a series of interviews with several companies successfully using the FirstPak concept. In preparing this report, we have spoken to companies covering multiple regions and ranging in size from those doing only a small amount of multi-location FirstPak business up to those generating annual sales volumes of several million dollars of FirstPak business.

This report summarizes what we have learned and provides numerous quotes from these interviews. This is not a statistical representation of AICC's entire membership. Rather, it is a summary of what has been learned by many of those currently benefitting from the FirstPak program.

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Communication between partners is critical

The mechanics of maintaining contact between all parties is handled differently by the various FirstPak groups. Phone calls and faxes tend to be problematic because they do not provide an adequate paper trail for managing complex processes. For many, e-mail has replaced phone calls and faxes. (However, one member favored either in person or conference call meetings so "...people can meet each other and anticipate problems.")

When a large amount of complex information must be exchanged between multiple parties, the exchange of spreadsheets sent by e-mail was a preferred form of communication. To some, this rudimentary form of shared access points to a need in the future for some type of collaborative "groupware" solution.

To date, the Association has examined several approaches to this, all essentially relying on some form of on-line collaboration. But, coincident with last year's collapse of numerous internet companies, many of the options considered no longer exist. And, as of this point in time, no on-line collaboration solution has been selected for recommendation.

Optimistically, one of the larger members interviewed offered that "ultimately, what we need is some form of electronic transfer and a linking within individual FirstPak groups. This will provide an enormous time savings." Another stated, "The future likely includes the instantaneous exchange of information. It all depends on how big we want this thing (FirstPak) to become."

From the start of any FirstPak initiative, each party must clearly understand the contract and all that is expected of them to fulfill it. Participating companies must fully grasp their own roles as well as the responsibilities of their group partners.

Two of those interviewed recommended that lead members provide better feedback on pricing. One complained that a lead partner's failed attempt to form a FirstPak group left him not knowing why the group's sales effort had been unsuccessful. The lead member, in this instance, provided no information about the acceptability of his pricing. He felt that this lack of communication between potential partners was detrimental to the overall effort and to his future participation in FirstPak groups.

To customers, FirstPak must be "User-Friendly"

Our Association is made up of several hundred independent businesses. Without a method and solid plan for working together we can, in the words of one member, be "a lot of chiefs with few, if any, Indians."

A successful FirstPak partnership is two or more separate companies performing for a customer in the marketplace as if they were one. Just as each of our own individual companies must operate cohesively and seamlessly so, from the customer's perspective, must a FirstPak entity.

Our goal is to establish "centralized control over de-centralized service" but to do it in such a way that the customer regards us as operationally as easy to deal with as others providing multi-location service.

Changes needed to best handle FirstPak business

A common theme among those conducting FirstPak activities is the need to assign a specific contact within each company. This is seen as someone who takes the FirstPak business as their responsibility.

The front line people handling FirstPak must have the support of management. “It cannot be viewed as just one more thing that has to be accomplished in an already overloaded work schedule. If FirstPak business is treated like just another house account, it will be plagued with problems caused by inattention and likely will fail.” Similarly, another member participant offered that “Success requires much more than delegation from the owner. (Careless) estimating can cost business.” One of the mid-sized participants added the thought that “Independents have to be prepared to act quickly.”

One of the largest FirstPak groups with whom we spoke stated, “A serious investment in the program by each of partners is required. The bigger the business being pursued, the bigger the financial commitment needed to get there.”

Some smaller members felt that their overall volume of FirstPak business must be increased to make the operational changes needed to practically administer a FirstPak program.

In at least the case of one major FirstPak group, the billing does **not** go through the lead member. Instead individual plants invoice the customer directly. This group feels that this is what “works best” for them and their customer, even though it is outside of the procedures as defined by the approval from the US Justice Department and the Canadian Board of Competition.

Locating partner members

“Trust” is considered a primary factor. “We feel that we need some degree of protection: what’s to happen if someone I don't know decides to go around me and goes direct. What protection is there? We’ve always worked on relationships. Worked with those we can trust.” Trust of the other members to perform as required and to not jeopardize business through their actions or inactions is ultimately critical to the success of the program.

“Our group started with us already knowing each other... our practices, styles & techniques.” Additionally, there needs to be confidence that FirstPak business will be treated as a priority by all participating members— especially when complex bids require rapid turnaround.

For all to succeed, it is evident that different styles and techniques within the group must be rationalized. “Getting a group to move in the same direction develops with time.” That is, however, considered a critical component essential for long-term success.

Process management, whether it is ISO certification or another means of assuring quality and consistency, is seen as being very important to some participants. Pre-qualifying partner companies for their quality control is seen as another important step in setting up a FirstPak group.

One of those interviewed disclosed, “First we locate potential partners by geography. Then we send information about the particular project to their GM and follow up by phone. We ask them to verify that their machine specs are correct and that they fully understand the job and have enough information to intelligently bid on it. This part is done by phone, not e-mail to shorten the process.”

Another company was somewhat more narrow in their approach, citing that “...we work with people we know first-hand & go from there. Of course, geography plays a major role, then equipment. Ultimately, we have to assess the other members’ interest in participating.”

In approaching a large FirstPak opportunity, one leader sought an instant solution, “We qualified partners primarily by turning to a very large, already established group who employs the FirstPak business model. ” This makes points to the conclusion that those companies who wish to participate in FirstPak must make this fact known to other AICC members. Companies not chosen for particular FirstPak groups often asked: “Why was I excluded?” In many cases, the lead member’s answer was “Because we didn’t even know you were there.”

The cost and commitment required to gather information must be considered

The information on this topic came from participants in a single, very large and very complex contract — one that was, in fact, won by the group. The process they went through is seen by all of those interviewed as a “learning experience.”

Trying to get valid information from multiple locations is one of the most difficult parts of the process. “We were not being told everything up-front because, in many cases the prospective customer didn’t know everything or had not had time to think about it.” In the case of this contract, “Each plant had its own specifications and every facility was different. Some wanted JIT... others could warehouse... some wanted bundles of 50 ... some could only accept palletized product... there were different levels of service required at different plants.” Further, the information gathered was not always accurate or complete,

generating additional work, both at the local level and by the lead member's coordinator. All of these factors contributed to the overall difficulty of making a unified bid.

In many cases, there is a buyer in each location who must be satisfied. This, it was felt, can only be done with a high degree of local service.

“At first, we approached our FirstPak opportunities without a lot of thought up-front,” reported the lead company for this large contract. “There was a large amount of expense to administer the (FirstPak) program that went un-compensated because we failed to build it into our pricing. Items are easy to estimate. This kind of service is hard to pre-estimate because much of it can't be put on a piece of paper.”

Those approaching this kind of business must recognize it for what it is at the start of the process and commit to the expense.

“The most difficult part is the man hours to visit and gather the details,” attested a point person at the lead company. This contract was described as having taken 100% of the time of this senior staff person. Because the need for this degree of involvement was not anticipated, this cost was absorbed by the lead member, not distributed among those participating in the group.

In our interview, the owner said, “In the future, we will seek to get seed money or some form of pre-agreed reimbursement from other members for the expenses incurred in setting up a FirstPak program.”

Pricing must “make sense” and be competitive

This issue was succinctly put by one AICC member as, “If you want to participate: make yourself more competitive on pricing.” As much of the multi-location, national accounts business is for brown boxes, most independents have a handicap when competing with integrations. “They (the integrations) have the ability to set prices, independents do not. This lack of opportunity to adjust and massage prices makes it more difficult, but not impossible.” This is especially true when other factors are part of the equation.

Another phrased this as a “...major drawback because we can’t bid with a formula on box cost the way integrations can.”

“We believe that to benefit everyone we must address all the issues up front, starting with the fact that this is not a high profit business,” commented a successful FirstPak lead member. “Everyone needs to understand that they must price at a level that will not embarrass us, potentially damaging future opportunities.” This was also described as “... a need for greater flexibility in pricing to make some FirstPak proposals viable.”

As discussed earlier under “Communication between partners,” one participating member of a FirstPak group felt that he needed more guidance on pricing from the lead member.

A mid-level participant in the program recommended that the first step in setting up a FirstPak group should be for that lead member to estimate the cost of the job as if it were running in their own plant. This, it was suggested, would provide a baseline for judging the pricing submitted by potential partner members.

Unexpectedly, multiple interviewees brought up the topic of internet-based reverse auctions and their relationship to FirstPak. This was described as “...the biggest threat to the profitability of our

business.” And, “Nobody is going to stop the Freemarket-style of bidding. We do not plan to participate in that, though,” stated another member. Instead it was offered that FirstPak’s method of sales and service of customer needs be used as a counter measure against reverse auctions.

Identifying the best prospects

Several of the companies interviewed felt that any of the initial plans for FirstPak groups to go head-to-head with large integrators for general business were unrealistic. “High profile, multi-national, Fortune 500’s are, many times, too demanding to be profitable business,” stated one owner. Another commented, “Many of the largest customers erect obstacles making it impossible to do business with them.” Some members experienced situations wherein they were not allowed to even bid. This was described as a problem of corporate culture, namely “Fortune 500 companies willing to do business only with *other* Fortune 500 companies.”

Realistically, the FirstPak business model does not make it possible for us to compete in every situation. “Especially in cases where an integrator can base their pricing strictly on tonnage, we are likely to lose.” More than one of those interviewed stated flatly that, “National account business is not high profit business.” It was also stated that some very large companies would only deal with large integrators due to the belief that integrators could offer price stability.

Then who are our best prospects? Many participants in the FirstPak program have achieved success with multi-location companies who are mid-market and medium-sized. With mid-market described as a “sweet spot” in the spectrum of potential customers, many of our members sought out customers needing “items that an integrator

wouldn't know how to make." This was also described by another member as "Some fairly big companies have a mix that doesn't lend itself to a large integrated. Many can't handle the type of items we can — items which are our specialty."

The "sweet spot" also has to do with the mix of products and specific services which are required. One example given was that "The majors don't do warehousing and JIT. That's a big part of what we offer." Additionally, "...many (of the large national suppliers) steer away from complexity." And another summed up this distinction as, "The more paper involved, the more it's a job for an integrated. The more touching involved, the more it's a job for an independent."

The primary strength of independents over their larger, national and international competitors is seen as the quality of independent's products and the quality of their service. Additionally, the "independent style of business" (the ability to make local decisions) was described as an advantage in some sales situations.

One aggressive FirstPak lead member feels that we can take the current wave of consolidation and use it to our advantage. He described this as, "We can become allies with customers who are receiving corporate dictates to consolidate purchasing by offering the local service of a FirstPak group." This was seconded by another FirstPak participant who stated that "Any situation where someone else is making the decisions really ticks people off. Locals don't want to change." The belief is that these negative emotions should be used to our advantage.

A different company stated that they use customer merger and acquisition activity, as well as customer expansions, to find FirstPak opportunities. "We identify the possibility that companies (in these situations) may need to make some savings on a national basis."

Service is the primary product we sell

Along the same lines as identifying prospects and capitalizing on our strengths and our competitors weaknesses, many of those interviewed further stressed service as a key differentiation between independents and integrations. This comes as no surprise, but it serves to reinforce our beliefs about AICC members' position in the marketplace. A sampling of comments includes:

- “Ultimately success comes from what independents do best: provide better service, more attention and a higher quality of attention.”
- “We sell service rather than price.”
- “Our target customers are those who want a better approach to them and their individual needs - not the integrated approach of the same pricing and same service coast to coast. In this respect, we are offering an opposite approach from that taken by the national accounts sales of integrations.”
- “Our best customers don't want to sacrifice service. The combination of the types of work we handle and the service we provide makes us cost-effective, if not the cheapest. Getting this idea across is a central part of our sales efforts.”
- “Customers need to be educated on the fact that lower prices can come at a very high ‘cost’.”
- “Most of the time our success depends on the buyer. We have hard edged price shoppers versus those who are process oriented and can be convinced that FirstPak is a way to simplify their jobs.”
- “In many cases, what we are offering is not a commodity, so we should never be backed into the corner of competing as if it were a commodity.”

FirstPak can be used offensively and defensively — both work

On the defensive side, one stated that FirstPak “...absolutely helped retain existing business for us, emphatically so.” While many people seem to consider FirstPak purely defensive and report having no proactive push in place. Others, particularly larger participants, report that FirstPak is “...a two-way opportunity.”

“Offensively is where it (FirstPak) needs to be pushed,” proposed one member. “It’s a great defensive strategy for now, but to continue to grow, FirstPak must be thought of as an integral part of our business.”

“FirstPak is the ‘card up the sleeve’ of our sales effort. It has gotten us equal consideration with the big players in much larger companies,” reported another member.

Internal training is very important

The majority of those interviewed stated that their sales staff were familiar with the FirstPak program. One expressed this as, “100% of our sales staff is up to speed because it is a topic of discussion in many sales meetings.”

Some stressed the importance of internally prepared materials for salespeople. The largest of the FirstPak groups we spoke with expanded on this saying that they had prepared a variety of support materials including brochures, sell sheets and PowerPoint presentations.

For several, training salespeople about FirstPak has "...paid off so far." Conversely, one of the companies interviewed stated that they don't use FirstPak as a selling tool. "Our salespeople are aware of it, but not active with it. FirstPak business is handled only by our most senior people."

The strength of sales staff, as well as the strength of sales management, is seen as being critical to succeeding with FirstPak. Initially, most sales people see FirstPak as a defensive way of holding onto an account. But as they become more savvy, and as management "...stays on top of them more about this, they begin looking for FirstPak opportunities." One participant said that they coach their people to use past competitive situations to identify opportunities for utilizing FirstPak alliances.

The need for continuous training was emphasized by one of those interviewed. "We have to be prepared to defend the sale at multiple points. We should always be able to convince the customer that we are offering something of value. Our sales people must realize that now they are representing more than just themselves, they have to understand the magnitude (of FirstPak)."

One company reported that it will, in the near future, have salespeople whose primary emphasis will be on FirstPak business.

What works against us

As discussed earlier in this report, the fact that FirstPak companies do not all report to the same parent corporation can be a disadvantage. “In a FirstPak deal, we have no authority over individual plants. This is a major drawback when competing with integrations,” asserted one interviewee. “The lack of opportunity to adjust and massage prices makes it more difficult.” It is possible that many of the perceived difficulties surrounding this issue can be countered by stronger communication and cooperation.

One owner stated that he is “...cautious about promoting the FirstPak concept because we feel that it may cost us existing business and opportunities.”

Two different companies, in two widely separated parts of the US, stated that border crossing interferes with JIT. One member’s solution was to operate facilities in Mexico to supply his customers in Mexico.

What else members would like to see

One member asked that methods for setting prices should be addressed by FirstPak and that AICC setting policy would be "...the most advantageous way to do this job. Clearly, antitrust concerns make this an impossibility.

Others described what FirstPak needs in the future as:

- "Additional marketing strategies and tools."
- "A greater awareness in marketplace - what it is - what it can do."
- "A greater presence within the AICC."
- "Possibly advertising and promotion, but this would have to be targeted enough that it would not 'wake' (our large, national competitors)."

Thank You

Thank you to the many members of AICC who generously offered their time to be interviewed for this report.

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