Best Practices in Customer Stratification

- Objectively and mathematically stratify your customers into logical groups.
- Deploy strategies by customer type.
- Drill down into the factors that make up each customer’s ranking.
- Target specific areas of improvement with your customers to make them more profitable
Objective

• Customer Stratification Research

• Utilization to Drive Profitable Growth

• Start your own journey
Agenda

• Distributor Profile
• E&A/StratMax – Timely and Strategic Customer Stratification Resources
• Customer Stratification Best Practices
• Business Fit
• Next Steps and Questions
Profile

- Wholesaler
- Infor FACTS, SX, TakeStock
- Customers
Challenges

• Sales Force Productivity
• Competition
• Suppliers
• GMR

• Pricing
• Inventory
• Financial
• Service
## Product Category Summary

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Revenue</th>
<th>Quantity</th>
<th>OM %</th>
<th>GM %</th>
<th>Count of Catalog No</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refrigeration</td>
<td>$2,724,181</td>
<td>1,2517</td>
<td>9.2%</td>
<td>9.7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Air Filters</td>
<td>$1,966,129</td>
<td>45628</td>
<td>6.5%</td>
<td>47.70</td>
<td></td>
<td>8.3%</td>
</tr>
<tr>
<td>Heating &amp; HVAC Equipment</td>
<td>$1,137,671</td>
<td>706</td>
<td>16.9%</td>
<td>530</td>
<td></td>
<td>4.4%</td>
</tr>
<tr>
<td>Commercial Compressors</td>
<td>$1,097,331</td>
<td>391</td>
<td>20.0%</td>
<td>400</td>
<td></td>
<td>4.3%</td>
</tr>
<tr>
<td>Temperature Controls</td>
<td>$924,274</td>
<td>12,219</td>
<td>29.2%</td>
<td>6,740</td>
<td></td>
<td>3.2%</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>$76,678</td>
<td>13,023</td>
<td>25.2%</td>
<td>12,880</td>
<td></td>
<td>0.9%</td>
</tr>
<tr>
<td>Motors Below 1 Horsepower</td>
<td>$71,534</td>
<td>9208</td>
<td>20.6%</td>
<td>6,952</td>
<td></td>
<td>0.3%</td>
</tr>
<tr>
<td>Copper Tube</td>
<td>$75,045</td>
<td>1,3994</td>
<td>14.5%</td>
<td>3,449</td>
<td></td>
<td>0.9%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>$749,893</td>
<td>42,930</td>
<td>29.9%</td>
<td>18,586</td>
<td></td>
<td>2.9%</td>
</tr>
<tr>
<td>Belts</td>
<td>$571,227</td>
<td>48,042</td>
<td>29.5%</td>
<td>22,080</td>
<td></td>
<td>2.2%</td>
</tr>
<tr>
<td>Combination HVAC Compressors</td>
<td>$520,481</td>
<td>856</td>
<td>26.1%</td>
<td>950</td>
<td></td>
<td>2.1%</td>
</tr>
<tr>
<td>Combination Equipment</td>
<td>$494,854</td>
<td>265</td>
<td>100%</td>
<td>294</td>
<td></td>
<td>1.8%</td>
</tr>
<tr>
<td>Pneumatic Controls</td>
<td>$405,062</td>
<td>7,1102</td>
<td>20.8%</td>
<td>2,947</td>
<td></td>
<td>1.8%</td>
</tr>
<tr>
<td>Digital Thermostats</td>
<td>$554,316</td>
<td>858</td>
<td>33.1%</td>
<td>6,264</td>
<td></td>
<td>1.8%</td>
</tr>
<tr>
<td>CharacTesting &amp; Vacuum</td>
<td>$96,071</td>
<td>7,968</td>
<td>24.1%</td>
<td>6,837</td>
<td></td>
<td>1.5%</td>
</tr>
</tbody>
</table>
E&A and StratMax

{ Timely and Strategic Resources }
John Mansfield

- 32+ Years Experience with Graybar
  - $5.6 Billion Wholesale Distributor - Electrical, Communications, Services
- Learned business from the ground up
- Outside Sales - 10 years
- $300 million P&L Leader
- VP Corporate Accounts
- Industry Leader in Customer Stratification Application
- StratMax – Consultant Focusing on Customer Stratification in Wholesale Distribution
- Partnered with Earnest & Associates
Customer Stratification: Best Practices for Boosting Profitability

This groundbreaking book by experts from Texas A&M University offers 20 practical action steps that wholesaler-distributors can implement today and over time as a result of the best practice research conducted with 68 real wholesaler-distributors across multiple lines of trade.

http://www.naw.org/crdbp/customer-stratification.php
Customer Stratification Practices

Best Practices for Boosting Profitability, F. Barry Lawrence, Pradip Krishnadevatajan, Senthil Gunasekaran
Customer Stratification Model

- **Opportunistic Customers**
  - High Profitability
  - No Relationship
  - Low Cost to Serve
  - Low Volume

- **Core Customers**
  - High Profitability
  - Sustained Relationship
  - Low Cost to Serve
  - High Volume

- **Marginal Customers**
  - Low Profitability
  - No Relationship
  - High Cost to Serve
  - Low Volume

- **Service Drain Customers**
  - Low Profitability
  - Sustained Relationship
  - High Cost to Serve
  - High Volume

- **Customer Life (Loyalty)**
- **Sales Volume**
- **Gross Margin**
- **Cost to Serve (CTS)**
Customer Stratification Benefits

- More Accurate Sales Force Deployment
- Improved Negotiations
- New Growth Opportunities
- Pricing Optimization
- Better Inventory Management
- Better Marketing Communications
- Targeted Sales Force Compensation
Key Findings

“...EBITDA of 5.2% could improve to 11.4% by implementing best practices...”

“Customer stratification, in particular, drove EBITDA improvement, which affected other critical processes such as marketing and pricing.”
Customer Stratification Factors

### PROFITABILITY

<table>
<thead>
<tr>
<th>Factor</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>GM $</td>
<td>50%</td>
</tr>
<tr>
<td>GM %</td>
<td>50%</td>
</tr>
</tbody>
</table>

**Net Profit**

### COST TO SERVE (CTS)

<table>
<thead>
<tr>
<th>Factor</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days to Pay</td>
<td>25%</td>
</tr>
<tr>
<td>Order Size</td>
<td>21%</td>
</tr>
<tr>
<td>No. Lines</td>
<td>18%</td>
</tr>
<tr>
<td>Returns</td>
<td>11%</td>
</tr>
<tr>
<td>C &amp; D Items</td>
<td>14%</td>
</tr>
<tr>
<td>Will Call</td>
<td>4%</td>
</tr>
<tr>
<td>Delivery</td>
<td>7%</td>
</tr>
</tbody>
</table>

### BUYING POWER

<table>
<thead>
<tr>
<th>Factor</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales $</td>
<td>50%</td>
</tr>
<tr>
<td>Product Lines</td>
<td>25%</td>
</tr>
<tr>
<td># Items</td>
<td>25%</td>
</tr>
</tbody>
</table>

**Customer Lifetime Value**

### CUSTOMER LOYALTY

<table>
<thead>
<tr>
<th>Factor</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orders</td>
<td>35%</td>
</tr>
<tr>
<td>Consistency</td>
<td>35%</td>
</tr>
<tr>
<td>Trend</td>
<td>30%</td>
</tr>
</tbody>
</table>
Sample Stratification Results

% of Customers and Sales by Stratification Type

- Core: 30% (Cust), 68% (Sales)
- Marginal: 11% (Cust), 37% (Sales)
- Opportunistic: 22% (Cust), 7% (Sales)
- Service Drain: 11% (Cust), 14% (Sales)

Broaden Our Reach.
Insanity:
Doing the same thing over and over again and expecting different results.
—Albert Einstein
“...what we can achieve depends less on the amount of time we possess than on the use we make of our time.”

John S. Mill (1806-1873); British philosopher
SPEED

- S = Stretch
- P = Protect
- E = Examine
- E = Eliminate
- D = Develop

Opportunistic
- Develop

Core
- Stretch and Protect

Marginal
- Develop
- Examine
- Eliminate

Service Drain
- Develop
- Examine
Utilizing Customer Stratification

- Sales Force Deployment
- Pricing
- Inventory Deployment
- Marketing
- Service Platform
- Sales Force Compensation
Typical Sales Person
TIME IS MONEY

Core

Opportunistic

Service Drain

Marginal

Money

12

3

6
Dashboard Results

- Stratification Results
- Customer Factors
- Buying Power Analysis
Strategies Playbook

- Best Practices from NAW Distributors
- Management & Sales Team
- Owner, Actionable, Timeframe

Workshop Action Plan 1
Thursday, February 5, 2015 9:07 AM

Customer:
Branch:
Salesperson:
Manager:
Created Date:
Review Date:

Goal
Describe what you are trying to achieve with this customer

Strategy
Describe strategy you will be implementing with customer here

Resources Required
- List the resources you will need or use here
- Both internal and external

Measurement of Success
Describe here how you will measure whether you are successful; measurements may be subjective, but there should be at least 1 reported and measured
Strategy - Service

Core Customers

- High Profitability
- Sustained Relationship
- Low Cost to Serve
- High Volume

Best Practices for Boosting Profitability, F. Barry Lawrence, Pradip Krishnadevrajan, Senthil Gunasekaran
Opportunistic Customers

- High Profitability
- No Relationship
- Low Cost to Serve
- Low Volume

Strategy - Marketing

Customer Stratification Dashboard

E&A LLC Team Site

Stratification:
- Core
- Marginal
- Opportunistic
- Service Drain

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Service Drain Customers

- Low Profitability
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Best Practices for Boosting Profitability, F. Barry Lawrence, Pradip Krishnadevanarajan, Senthil Gunasekaran
Strategy - Pricing

Marginal Customers
- Low Profitability
- No Relationship
- High Cost to Serve
- Low Volume

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GMR 9.6%
GM 48.8%
Results

[Graph showing results with categories: SLS % V, GMR, SG&A % GM, Inv % COGS, Rec% of SLS, Pay% COGS. The graph includes blue and red bars indicating different locations or groups, with some checks and crosses indicating performance.]
Best Practice – Finished Product
Business Fit

Why you need to start your customer stratification journey now.
Business Fit

Objectives

• Profitable Growth
• Sales
• Grow Margin
• Net Profit

Customer Stratification

• EBITDA increase (5.2% to 11.4%)
• Efficient Sales Force Deployment
• Identify New Growth Opportunities
• Better Marketing Communications
• Pricing Optimization
• Improved Negotiations
• Better Inventory Management
• Resource Deployment Efficiency
Customer Stratification Relationship To Shareholder Value

- Customer Stratification
  - Buying Power
  - Customer Loyalty
  - Gross Margin
  - Cost To Serve

- Growth
  - Growth

- Profitability
  - Asset Efficiency, Cash Flow, and Profitability

- Shareholder Value
“I’ve been in sales for over 20 years and this is the best information I have ever had about my customers”

Sr. Sales Representative,
Electrical Distributor

“This is a game changer”

President and CEO
HVAC Distributor
Next steps
Next Steps

• Questions and Feedback
• Commit to Your Customer Stratification Journey
  • Research
  • Networking
  • Leverage Trailblazers
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