Growing Profitably Using Customer Stratification

SMART CUSTOMER RELATIONSHIP MANAGEMENT THAT DRIVES TOP LINE REVENUE GROWTH AND BOTTOM-LINE PROFIT

Tom Fitzgerald

Growing Profitably Using Customer Stratification: Smart Customer Relationship Management That Drives Top Line Revenue Growth And Bottom-Line Profit

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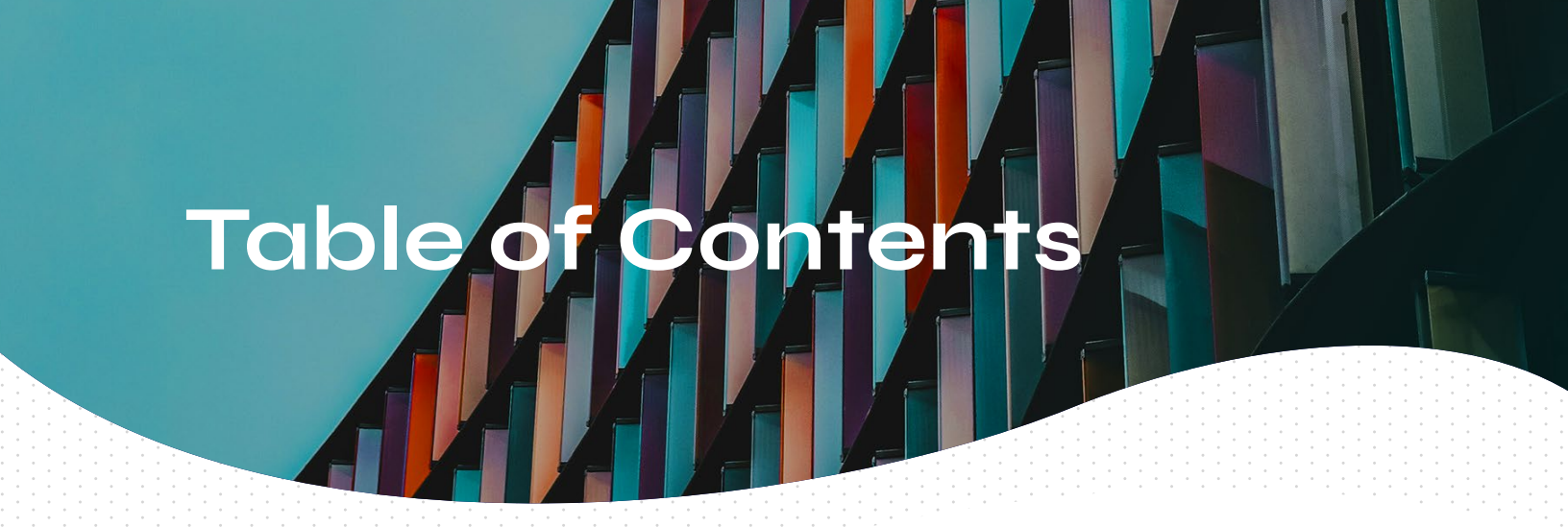

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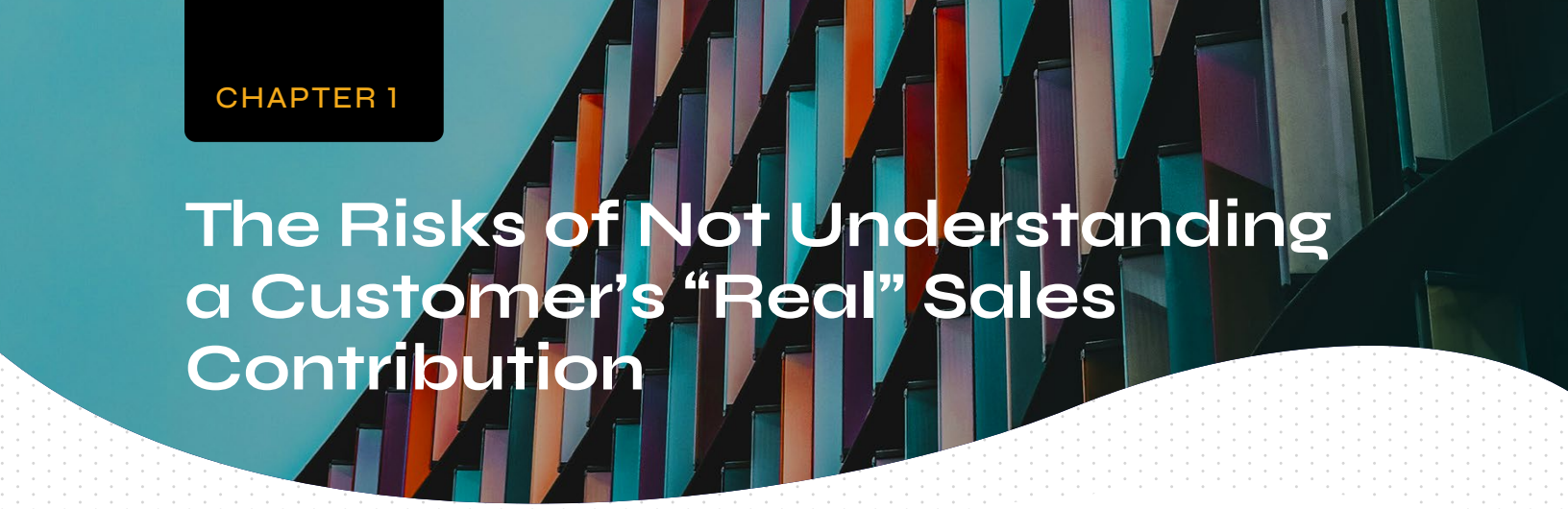


CHAPTER 1

The Risks of Not Understanding a Customer's "Real" Sales Contribution

"Know Your Customer." Deeply ingrained in the minds of those in the financial sector, this widely held business principle is a nod to best practices centered on various analyses and regulatory compliance procedures designed to mitigate risk introduced by customers into the business model.

For those in the distribution or manufacturing sectors, the notion of customer risk may not register concern beyond that of ensuring timely payment from customers. The reality, however, is that customer-associated risk can manifest itself in any number of ways in the running of daily business, thereby, making "Know Your Customer" just as germane for the distributor and the manufacturer as it is for the financier.

The pressure to win business is fierce. For many distributors and manufacturers, just being able to hold onto existing market share — much less stimulating growth — poses enough of a challenge. Ever increasing customer expectations for greater product access, best pricing and expanded services have motivated sellers to

become creative and proactive in implementing dynamic programs to retain market share and win new business, such as:

- Mitigating supply chain risk and reducing lead times via reshoring or near-shoring sourcing strategies
- Onboarding or expanding after-sales support, warranty and repair services
- Expanding the role e-commerce plays in the selling model
- Expanding integration into the customer's procurement and inventory management

As innovative as such programs assuredly are, and despite the merits they undoubtedly possess, they may have a profound impact on changing a company's customer sales and support model through the blind assumption of significant costs and added complexities. As such, contrary to the intended positive change hoped for in pursuing these endeavors, they may introduce adverse risk into the business model that impair or restrict margin and EBITDA earnings and growth in return on assets and financial liquidity.

The more ambitious and proactive a company is in embracing new strategies to win business, the greater the imperative is for that company to possess the capability to assess the strength and alignment of its various customer relationships with its revenue and earnings goals and the cost structures in place to maintain those relationships. The merit of the sales strategies deployed and/or the cultural practices engrained overtime in the selling process must be assessed against these customer relationships within the context of their cause and effect on:

- Growing revenues
- Reducing sales, support and service cost in real terms and as a percentage of sales
- Growing return on assets
- Driving greater efficiency in sales asset allocation

Integral in making this assessment is the understanding that strategies and practices do not affect all customers the same way or drive the same financial results or the desired behavior equally across all customer groups. It is crucial to know the attributes that differentiate customers from one another. Without this insight, defining and deploying effective, results-driven sales strategies, and assessing their impact, becomes incredibly challenging. Lack of understanding of how actual financial results are derived from the intersection of strategy / practice and type of customer is likely fundamental in explaining the results of studies on sales to profits relationships performed by Johathan Byrnes, senior lecturer at MIT and founder of Profit Isle. His analytical experience has shown that:

- 20% of sales activity generates 150% of profit
- 30% of sales activity erodes half of profit
- 50% of sales activity generates minimal profit, but consumes over 50% of company resources

These results portend that a serious disconnect exists for the C-Suite between strategies deployed and understanding how these strategies actually succeed or fail in driving financial results across the spectrum of the company's various types of customers. The Customer stratification model provides a framework for analysis that helps bridge this gap by illuminating the corollary between the cross section of strategy and customer in driving growth and earnings.

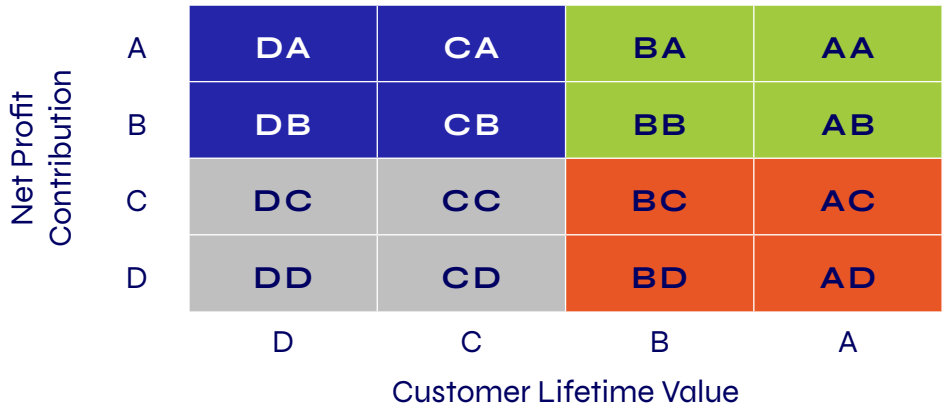
CHAPTER 2

Customer Stratification: Fundamental Concepts

Customer Stratification is a framework that provides a comprehensive assessment of your customers' impact on your business, illuminating their "real" contribution towards helping you accomplish your growth and profit objectives — which in the end helps with the overall objective of increasing customer lifetime value.

The model was developed and promulgated by the Council for Research on Distributor Best Practice (CRDP), an alliance between the National Association of Wholesaler-Distributors, and Texas A&M University's Industrial Distribution Program. Through this framework, customers are ranked against each other in the context of their comprehensive contribution to your business. With this insight, strategies specific to each type of customer can be devised to enhance and manage customer relationships, strengthen pricing and inventory investment to maximize growth of revenue and profit, and improve the ROI on inventory and sales assets-all while ensuring customers receive the highest level of service and fulfillment and mitigating the risk of customer defection.

How does the model work? According to their ranking, a customer would fall within one of the four quadrants of the following Customer Ranking Matrix:



A customer that ranks at the top for both Customer Lifetime Value and Net Profit Contribution would fall in the "AA" category. A customer that ranks third for Lifetime Value and first for Net Profit Contribution would fall into the CA category. The significance of each quadrant of Customer Category as to strategy making is as follows:

- **Green: Core.** Customers in this category are in total alignment with your growth, asset management and profit objectives. They fully appreciate your value proposition. They rely on you for their success, and most likely, you are a preferred vendor to them. Strategies for this category of customer usually revolve around maintaining customer experience and fulfillment and raising customer engagement without increasing the cost to serve.
- **Blue: Opportunistic.** Customers in this category drive satisfactory to exceptional profit for you on a yield basis by way of the high margins and/or the low cost to serve associated with the products they purchase from you. However, their engagement with your company is subpar. It is likely they buy from you only when they must, ie, when their preferred vendor cannot fulfill their demand. Hence, in real dollar terms, they are not your larger contributors to your bottom-line profit, but they could be if you could devise strategies to increase their engagement without sacrificing margin. These customers are your best candidates to nurture into Core Customers. Because of this, the temptation is high to buy their business at any cost to get them away from your competitors. However, pursuing such strategies will likely result in the exact opposite of what is desired, which is the customer eroding into the Service Drain customer category.

- **Orange: Service Drain.** You have high engagement with customers in this category, but due to either unreasonable service demands or the high cost to serve and low margins associated with the type of products they purchase from you, at best they are not generating acceptable return on margin, or worse case, they are eroding the good profit you are generating from other customers. It is imperative to first identify customers in this category that generate profit vs. those who do not, and then understand the underlying reasons why, before attempting to devise strategies to improve the contribution of this customer. Customers who do drive profit may be candidates for becoming Core Customers if the right strategies are put in place, but those strategies will be different from those that address customers that don't generate profit.
- **Gray: Marginal.** Customers in this category are the lowest contributors in regard to supporting your company's self-interests. They engage with you sparingly, and when they do, the product mix you maintain to support them generates low margin and/or has a high cost to serve associated with it. Unless a customer in this category is near to becoming an Opportunistic or Core Customer, they likely need to be cut from your sales model. However, if your sales assets utilization and compensation strategies are totally based on, or heavily skewed towards, gross revenue, the sales force will not be motivated to disengage from these customers which will make implementing corrective change challenging.

To arrive at the ranking that determines a customer's placement within the Customer Ranking Matrix, a customer is assessed against the following KPIs:

Customer Lifetime Value

Buying Power
- Customer Spend
- Item SKUs Accessed
- Product Lines Accessed

Customer Loyalty
- Hits (Orders Placed)
- Order Consistency
- Revenue Trending

Net Profit

Profitability
- Gross Margin $s
- Gross Margin %
- Profitability Trending

Cost to Serve
- Average Days to Pay
- Average $ Order Size
- Average Line Items
- % of Items that are C&D Items
- % Returns
- % of Same Day Deliveries Orders
- % of Will Call Orders

- Customers are scored on their performance for each of the **KPI Criterion**.
- Their scores are then weighted to reflect their influence and importance in driving overall performance within each respective **KPI Grouping** whereby each **KPI Grouping** receives its score.
- **KPI Grouping** scores are then weighted within their respective **Customer Lifetime Value** and **Net Profit Categories** to arrive at a combined score for each **Category**.
- Based on its combined score, a customer is designated as an A, B, C or D customer in each **Category**. Based on this final A, B, C, D designation, a customer is assigned to the quadrant in the Customer Ranking Matrix that corresponds to its designation within each of the two **Categories**. Appendix I presents a graphical representation of this modeling process. Appendix II presents a detailed explanation of the measure, the calculation and scoring of each of the **KPI Criterion**. Appendix III contains charts depicting the scoring values and weightings used in the modeling.

CHAPTER 3

Customer Stratification: The Challenges

Customer stratification may be challenging to perform for some organizations, especially in the beginning. However, as data reporting structures are improved, implemented, and maintained, these challenges should mitigate over time.

The guiding rule to follow is to avoid complexity in the model, which can undermine the credibility of the results of the analysis. Complexity can also increase the effort to perform the analysis, where it can neither be performed in a timely manner nor within the frequency needed to keep strategies current and relevant.

If a KPI cannot be reliably reported upon, it can be omitted until the proper reporting structure is put in place. It can also be replaced with a KPI of a similar nature that can be reliably reported upon.

Following are some areas of complexity that can affect the reliability of the customer ranking calculations in customer stratification.

Scoring and Weighting Values

Admittedly, assigning the scoring and weighting values used in customer stratification is a subjective exercise. Ideally, the values used should reflect the nuances and particular dynamics of a company's sales and operating environments.

Although the scoring and weighting values presented herein represent a sound starting point, they should not be interpreted as being applicable to all sales and operating environments. If the A, B, C, D designations seem to be disproportionately skewed, this is an indicator that scoring and weighting values may need to be revised.

Performing the Analysis at the Local Level

Customer stratification should be performed at the local level, ideally, completing a model for each selling / warehouse location in a branch or in a region. The database structure of a company's sales analysis and/or general ledger chart of accounts will determine the level of difficulty involved in capturing an inventory item's performance at the local level.

In many companies both sales analysis and the general ledger must be used to identify the local level associated with a transaction. In these cases, it's necessary to have a cross reference between the two databases so that the entirety of the sales and inventory item transactions can be captured. This cross reference is usually accomplished by use of a sales or product code embedded in the transaction. The code is used for sales analysis and to designate where in the general ledger chart of accounts the transaction is posted.

Determining Reliable Cost to Serve (CTS)

CTS relates to assessing how high maintenance a customer is to process for sale, from procurement to stocking to selling. CTS exists in the realm of Soft Costs in the "below the line" section of a profit and loss statement.

Although to some degree, some CTS may be capitalized to inventory as part of indirect costs or burden allocations, often it is difficult to draw a direct relationship between any of these costs and any particular customer or product. For this reason, certain KPIs are used in the customer stratification model to infer a CTS level associated with a customer / product mix combination.

The model presented uses the following KPIs:

- Average Days to Pay
- Average $ Order Size
- Average Line Items
- % of Items that are C&D Items
- % Returns
- % of Same Day Delivery Orders and
- % of Will Call Orders

However, if KPIs exist upon which more reliable inference can be made, those can be substituted for any of the above KPIs. Additionally, any of the above seven KPIs can be omitted if the reliability in their calculation is suspect or it is believed that within a particular business environment it is not a sound marker for inferring CTS.

Determining Reliable Gross Margin

It shouldn't be difficult to determine how much dollar revenue a customer / product sales mix generates. However, determining the "true" margin generated from those sales may be challenging.

Gross margin can be reliable as an indicator of a sale's contribution to profit generation only if all significant costs to acquire, refine and produce the product sold are accurately captured in the right proportions. Otherwise, the true contribution of the sale may be distorted.

Discussing the inaccuracies involved in calculating reliable cost of goods sold can be an expansive conversation. In this Guide, the conversation is kept to a high level and focuses on three areas to which many managers will relate:

Standard Cost vs Actual Cost. There are competing schools of thought as to whether cost of goods sold is more accurately determined by capitalizing inventory cost using an implied standard cost or by charging the actual cost incurred to acquire, refine, or produce an item.

Generally speaking, standard cost should drive more reliable cost of goods sold when procurement and production are managed to sales forecasts, whereas actual cost should drive more reliable cost of goods sold in ETO / MTO / ATO order environments.

Capitalization of Indirect Cost and Burden. The practice of capitalizing indirect costs and burden to inventory is justified by the pretense that the practice provides a full cost for an item and presents a more accurate measure of an item's "true" profit contribution. At least in theory, there are several potential weaknesses in applying this capitalization method that may result in a distortion of an item's true profit contribution.

- Any approach used to reclass "below the line" costs to inventory is an arbitrary allocation based on presumptions that may or may not accurately reflect how these costs actually move through the procurement and/or production processes.
- If a significant allocation variance results, it is indicative of inventory being over or under stated because of the allocations. Further, the cost of goods sold that flows out of inventory will be misstated as well.
- Even if no significant allocation variance results, there is no objective way to validate that the right costs are being allocated to the right inventory items in the right proportion.

Freight Costs. Freight has become a significant acquisition cost in the purchase of inventory. In many companies, freight is the most expensive cost incurred to acquire an item. Consequently, capitalizing freight cost to an inventory item in the correct proportion is critical to determining accurate gross margin per item. There are different scenarios wherein freight cost capture inaccuracies occur, however, they derive essentially from the same root causes.

- The ability to accurately associate purchase orders with the freight cost incurred.
- The ability to reasonably apportion the freight cost among all items on a purchase order.
- The degree of variance at the PO line item level between assumed freight capitalized and actual freight cost incurred.
- The amount of time that transpires between inventory receipt and validating the actual freight cost incurred.
- An ERP's capability to support adjusting inventory item cost to account for freight cost variance after its purchase receipt is received.

Limitations or degree of error in any of the above areas will impact the reliability of the calculated gross margin per inventory item.

Determining Product Lines Accessed

The KPI *Product Lines Accessed* measures the number of product lines from which a customer purchases as a percent of all product lines available. Inherent in this calculation is the setting of the threshold for how many of the SKUs existing within the product line need to be purchased to deem the product line "accessed." There is no one objective threshold that can be set for making this determination. The SKU threshold must be subjectively set for each product line taking into account the nature of the products and the number of SKUs in the product line.

Limitations of Order Consistency

Order Consistency is one of the KPIs calculated in the Customer Loyalty KPI Group, and is included in customer stratification to measure the degree to which a customer relies on you for the running of that customer's business. It is readily admitted that at best this measure is an inference of a customer's loyalty. Ideally, the more reliable measure would be the percent of all purchases a customer submits to your company. Being that this knowledge is unobtainable, Order Consistency is used in its stead.

It also must be kept in mind that for certain types of product sales, seasonality can significantly skew the order consistency measurement. For example, taking the average of orders placed over four quarters for a seasonable product whose sales season is only for two quarters will understate the true average. Product seasonality must be taken into consideration when calculating Order Consistency.

CHAPTER 4

What Customer Stratification Can Do For You

Customer Stratification provides the critical insights needed to devise effective sales and customer engagement strategies aligned with company investment & risk management objectives that drive growth and profit generation.

Customer stratification is a most effective means to assess the merits of your customers based on objective KPI factors that define success for your business. With this insight, you can dispassionately assess and understand with clarity how and to what degree your customers either help you or work against you in accomplishing the growth and profit objectives for your company. Your strategy will no longer be overly influenced by intuition, perception, or "hope as a strategy;" it will be based on sound business intelligence.

Integral to the value of customer stratification analysis is the enablement to perform meaningful customer segmentation of your account base. Customer segmentation is an essential prerequisite for enacting sales and marketing strategies of maximum impact and effect. Each customer has strengths to exploit and weaknesses to eliminate. Customer segmentation enables you to precisely define strategies honed on the key attributes of each customer segment, thereby significantly increasing your probability of promoting the desired behavior you want from each customer segment to help you accomplish your goals.

Companies that embrace customer stratification outperform their peers in:

- Deploying sales assets and driving maximum ROI on those assets
- Maintaining an engaged, motivated & empowered sales team
- Devising product sales mix and pricing strategies specific to the goals for each customer segment
- Improving alignment between sales compensation and pricing, and product sales mix goals for each of its customer segments
- Growing customer engagement across product lines
- Improving customer service and fulfillment
- Improving alignment between sales goals and inventory investment
- Managing the proliferation of risk associated with growth
- Improving product procurement efficiency
- Negotiating sales terms
- Managing inventory obsolescence and inventory ROA
- Devising roadmaps to nurture underperforming customers
- Reducing the rate of customer defection

The Big Picture: The Key to Promoting Growth in the Modern Economy

Sellers face a variety of challenges in effectively managing their customer relationships. The intense pricing and cost pressures under which they operate make it difficult for them to deploy solutions to these challenges.

Customer stratification should not be a difficult methodology to adopt and deploy. But due to the cost to onboard the process, limitations in legacy tech stacks, or a lack of know-how and experience as to how to best exploit technology, for many sellers it is difficult, and they cannot avail themselves of its benefits.

That is why it is imperative for sellers to ally themselves with the right technology partner who can not only provide them access to the right technology but can also **teach them the key business concepts underlying the technology and support them in deploying and exploiting it to their maximum benefit.**

Having the right technology partner as a resource and trusted advisor is the best path for sellers to effectively scale, leverage, and deploy effective solutions to enhance and maximize the benefits derived from their customer relationships.

Customer Stratification Model – Graphical Representation

KPI Criteria			KPI Grouping			Potential Category			Customer Stratification Ranking Matrix
KPI	SCORING	WEIGHTING	GROUPING	SCORING	WEIGHTING	CATEGORY	SCORING	A-B-C-D DESIGNATION	
$ Spend	40	50%							
Units Purchased	40	50%							
Customer Spend	40	50%	Buying Power	33	50%	Customer Lifetime Value	26.50	B	
Item SKU's Accessed	30	25%							
Product Lines Accessed	20	25%							
Hits (Orders Placed)	30	35%							
Order Consistency	20	35%	Customer Loyalty	21	50%				
Revenue Trending	10	30%							
								BC	Service Drain
Gross Margin $'s	30	40%							
Gross Margin %	40	40%	Profitability	32	50%				
Profitability Trending	20	20%							
Average Days to Pay		25%							
Average $ Order Size	20	21%				Net Profit	22.77	C	
Average Line Items	30	18%							
% of Items that are C&D Items	30	14%	Cost to Serve	21	33%				
% Returns	40	11%							
% of Same Day Delivery Orders	10	7%							
% of Will Call Orders	40	4%							

Explanation of KPI Measure & A-B-C-D Scoring

$ Spend

- Gross Revenue generated from all sales by a customer over a selected period range.
- The presumption being, the greater the Spend $'s, the greater the contribution towards covering fixed costs, driving economies of scale and generating profit.
- Scoring: Customers are ordered from highest to lowest, based on their $ Spend and ranked as follows:
  A Top 60% **B** Top 80% **C** Top 90% **D** Bottom 10%

Units Purchased

- Aggregate quantities of all items purchased by a customer over a selected period range (associated with $ Spend above).
- Where significant disparity exists in the nature of items purchased, for example, fasteners vs HVAC units, this metric may be misleading and the decision made to omit it.
- If it is omitted, revise its weighting to 0% and revise the weighting for $ Spend to 100%.
- Scoring: Customers are ordered from highest to lowest, based on their Units Purchased and ranked as follows:
  A Top 60% **B** Top 80% **C** Top 90% **D** Bottom 10%

Item SKU's Accessed

- The number of different item sku's purchased by a customer over a selected period range.
- It can be inferred that the higher the number of sku's purchased, the more in line the company is with the customer's pricing and service requirements.
- It can also be inferred from the lower the number of sku's purchased are, the customer is motivated more by price, and maybe availability of particular items, and not by other Company attributes; and as such, they may be more sensitive to price changes.
- Scoring: Comparing a customer's number of SKU's Accessed to the median value for all customers:
  A > 150% of Median **B** > Median & <=150% of Median **C** > 50% of Median & <= Median
  D <= 50% of Median

Product Lines Accessed

- The number of different product lines from which a customer purchased items (sku's) over a selected period range.
- The higher the number of product lines accessed, the higher the inference that the Company's overall value proposition, price, service & availability, is in line with the customer's requirements.
- Setting the threshold for the number of sku's that must be purchased within a product line in order to designate that product line as being accessed is a subjective decision. The greater the number of sku's within a product line, the greater the sku threshold would be.
- Scoring: Compare the number of product lines accessed by the customer to the number of all available Product Lines:
  A >75% **B** >50% & <=75% **C** >25% & <=50% **D** <=25%

Explanation of KPI Measure & A-B-C-D Scoring

Hits (Orders Placed)

- The number of orders placed by a customer over a selected period range.
- The greater the number of orders placed, the greater the inference of a customer's reliance on the Company and its preference for the Company's value proposition.
- Scoring: Comparing a customer's number of Hits to the median value for all customers:
  A > 150% of Median **B** > Median & <=150% of Median **C** > 50% of Median & <= Median
  D <= 50% of Median

Order Consistency

- The degree of stability in the volume of orders placed across intra-periods over a selected period range. For example, by quarter for a one year period.
- The greater the consistency in the number of orders placed, the greater the inference of a customer's reliance on the Company.
- Calculation: Standard Deviation of Number of Orders Placed / Average of Number of Orders Placed for each customer (Across all the intra-periods within the selected period range); Calculate the median value of all customers.
- The lower the value, the greater the order consistency.
- Scoring: Comparing a customer's Order Consistency Value to the median value for all customers:
  A <= 50% of Median **B** > 50% of Median & <= Median **C** > Median & <=150% of Median
  D > 150% of Median

Revenue Trending

- The Year Over Year Change in the Gross Revenue generated by a customer over a selected period range. For example, Year X & Year Y.
- Consistent growth in Revenue Trending indicates strong alignment between the Company's value proposition and a customer's requirements and the presence of less risk inherent in the Company/Customer relationship.
- Downward or erratic Revenue Trending is an indicator that the customer is likely buying from the Company only when it has to. There is more risk inherent in the Company/Customer relationship.
- Calculation: Rate of Change in Revenue between the periods (Period 2 Revenue - Period 1 Revenue) / Period 1 Revenue; Calculate the median change for all customers.
- Scoring: Comparing a customer's Revenue Rate of Change to the median value for all customers:
  A > 150% of Median **B** > Median & <=150% of Median **C** > 50% of Median & <= Median
  D <= 50% of Median

Gross Margin $'s

- Gross Margin in dollars earned from all sales placed by a customer over a selected period range.
- The presumption being the greater the margin, the greater the customers's contribution towards covering fixed costs and generating gross profit for the Company.
- Scoring: Customers are ordered from highest to lowest, based on their aggregate GM $'s and ranked as follows:
  A Top 60% **B** Top 80% **C** Top 90% **D** Bottom 10%

Explanation of KPI Measure & A-B-C-D Scoring

Gross Margin %

- The aggregate Gross Margin expressed as a percent earned from all sales placed by a customer over a selected period range.
- The presumption being the greater the margin, the greater the customers's contribution towards covering fixed costs and generating gross profit for the Company.
- Gross Margin $'s & Gross Margin % taken together provides a more accurate assessment of a customer's gross profit generation.
- Scoring: Comparing a customer's GM% to the median GM% for all customers:
  A > 150% of Median **B** > Median & <=150% of Median **C** > 50% of Median & <= Median
  D <= 50% of Median

Profitability Trending

- The Year Over Year Change in the Gross Margin $'s generated by a Customer over a selected period range. For example, Year X & Year Y.
- Consistent growth in Revenue Trending indicates strong alignment between the Company's value proposition and a customer's requirements and the presence of less risk inherent in the Company/ Customer relationship.
- Downward or erratic Gross Margin $ Trending may be an indicator of declining sales, intense pricing/discounting negotiations or higher cost to produce.
- Calculation: Rate of Change in Gross Margin $'s between the periods (Period 2 GM$ - Period 1 GM$) / Period 1 GM$; Calculate the median change for all customers.
- Scoring: Comparing a customer's GM$ rate of change to the median value for all customers:
  A > 150% of Median **B** > Median & <=150% of Median **C** > 50% of Median & <= Median
  D <= 50% of Median

Average Days to Pay

- The average turnover of a customer's open invoices converted to number of days for a selected period range.
- The higher the number of Days to Pay, the higher the risk inherent in the Company/Customer relationship, the longer the cash conversion cycle and indirectly a higher cost of capital to maintain the relationship.
- Scoring:
  A < 30 Days **B** >= 30 Days & < 45 Days **C** >=45 Days & < 60 Days **D** >= 60 Days

Average $ Order Size

- The average dollar value of all orders placed by a customer over a selected period range.
- The presumption being the greater the order size, the more coverage there is towards indirect services costs, and perhaps a lower cost to serve due to efficiencies of scale.
- Scoring: Comparing a customer's Average Order Size to the median value for all customers:
  A > 150% of Median **B** > Median & <=150% of Median **C** > 50% of Median & <= Median
  D <= 50% of Median

Explanation of KPI Measure & A-B-C-D Scoring

Average Line Items

- The average of line items per order for all orders placed by a customer over a selected period range.
- The presumption being the higher the average number of line items per order, the lower is the cost to serve per order due to efficiencies of scale.
- Scoring: Comparing a customer's Average line items per order to the median value for all customers:
  A > 150% of Median **B** > Median & <=150% of Median **C** > 50% of Median & <= Median
  D <= 50% of Median

% of Items that are C&D Items

- The percent of all items on all orders placed by a Customer over a selected period range that are designated as C or D items. This can be calculated by simply tallying at the item line level of the order or by extending each line item by the quantity ordered. The presumption being the more the number of items purchased are skewed towards C & D items, the higher the inventory costs that are being incurred by the Company.
- Scoring: Comparing a customer's C&D% to the median value for all customers:
  A <= 50% of Median **B** > 50% of Median & <= Median **C** > Median & <=150% of Median
  D > 150% of Median

% Returns

- The dollar value of all Returns divided by the total Gross Revenue Dollars generated by a customer over a selected period range.
- The presumption being the lower the percent of returns, the lower the Cost to Serve associated with a customer.
- Scoring: Comparing a customer's Return % to the median value for all customers:
  A <= 50% of Median **B** > 50% of Median & <= Median **C** > Median & <=150% of Median
  D > 150% of Median

% of Same Day Deliveries Orders

- The percent of orders placed by a customer that are designated as Same Day Deliveries over a selected period range.
- The presumption being that the more that orders are skewed towards Same Day Delivery, the higher the transportation & freight cost being incurred.
- Scoring: Comparing a customer's Same Day Delivery % to the median value for all customers:
  A <= 50% of Median **B** > 50% of Median & <= Median **C** > Median & <=150% of Median
  D > 150% of Median

% of Will Call Orders

- The percent of orders placed by a customer that are designated as Will Call over a selected period range.
- The presumption being that the more that orders are skewed towards Will Call, the lower the transportation & freight cost being incurred..
- Scoring: Comparing a customer's Will Call % to the median value for all customers:
  A > 150% of Median **B** > Median & <=150% of Median **C** > 50% of Median & <= Median
  D <= 50% of Median

Scoring & Weighting Charts

Factor Weighting Distribution Chart										
FACTOR IMPORTANCE	NUMBER OF FACTORS									
	1	2	3	4	5	6	7	8	9	10
1	100%	67%	50%	40%	33%	29%	25%	22%	20%	18%
2		33%	33%	30%	27%	24%	21%	19%	18%	16%
3			17%	20%	20%	19%	18%	17%	16%	15%
4				10%	13%	14%	14%	14%	13%	13%
5					7%	9%	11%	11%	11%	11%
6						5%	7%	8%	9%	9%
7							4%	6%	7%	7%
8								3%	4%	5%
9									2%	4%
10										2%
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Point Values

KPI A-B-C-D Scoring Point Values

A Items	40 Points
B Items	30 Points
C Items	20 Points
D Items	10 Points

Category A-B-C-D Scoring Point Values

A Items	>= 32.6 Points
B Items	>= 25.1 Points
C Items	>= 17.6 Points
D Items	< 17.6 Points

KPI Scoring Ranges

$ Spend / Units Purchased

A	1% - 60%
B	>60% - 80%
C	> 80% - 90%
D	> 90%

Revenue Trending

A	> 1.5 x Median
B	> Median & <= 1.5 x Median
C	> .50 Median & <= Median
D	<= .50 x Median

Item SKUs Accessed

A	> 1.5 x Median
B	> Median & <= 1.5 x Median
C	> .50 Median & <= Median
D	<= .50 x Median

Gross Margin $'s

A	Top 60%
B	Next 20%
C	Next 10%
D	Bottom 10%

Product Lines Accessed

A	Accessed >75% of All Product Lines
B	Accessed >50% & <= 75% of All Product Lines
C	Accessed > 25% & <= 50% of All Product Lines
D	Accessed <= 25% of All Product Lines

Gross Margin %

A	> 1.5 x Median
B	> Median & <= 1.5 x Median
C	> .50 Median & <= Median
D	<= .50 x Median

Hits (Orders Placed)

A	> 1.5 x Median
B	> Median & <= 1.5 x Median
C	> .50 Median & <= Median
D	<= .50 x Median

Profitability Trending

A	> 1.5 x Median
B	> Median & <= 1.5 x Median
C	> .50 Median & <= Median
D	<= .50 x Median

Order Consistency

A	> 0 <= .50 Median
B	> .50 Median <= Median
C	> Median <= 1.5 Median
D	> 1.5 Median

Average Days to Pay

A	< 30 Days
B	>= 30 Days < 45 Days
C	>= 45 Days < 60 Days
D	>= 60 Days

KPI Scoring Ranges

Average $ Order Size

A	> 1.5 x Median
B	> Median & <= 1.5 x Median
C	> .50 Median & <= Median
D	<= .50 x Median

% Returns

A	<= .50 of Median
B	>.50 of Median & <= Median
C	> Median & <= 1.5 x Median
D	> 1.5 Median

Average Line Items

A	> 1.5 x Median
B	> Median & <= 1.5 x Median
C	> .50 Median & <= Median
D	<= .50 x Median

% of Same Day Delivery Orders

A	<= .50 of Median
B	>.50 of Median & <= Median
C	> Median & <= 1.5 x Median
D	> 1.5 Median

% of Orders that are C&D Items

A	<= .50 of Median
B	>.50 of Median & <= Median
C	> Median & <= 1.5 x Median
D	> 1.5 Median

% of Will Call Orders

A	> 1.5 x Median
B	> Median & <= 1.5 x Median
C	> .50 Median & <= Median
D	<= .50 x Median

About E&A

We created Earnest with one goal in mind: to drive exceptional business profitability for our clients.

More than an implementation, software, and advisory firm, we help midmarket manufacturing and distribution companies devise and deploy effective growth strategies and improve their operational efficiency and bottom-line results by making the most of their ERP technology. Our proprietary software turns off-the-shelf ERP products into powerful workhorses customized to address the intricacies of your business. And with over 45 years of business performance and ERP experience, nobody is better positioned to guide organizations through the challenges of building an operational competitive advantage. At Earnest, we help you see, build, streamline and profit from your business like never before.

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To learn more about E&A, please visit our website at www.earnestassoc.com