



Know More, Sell More, Make More

How a successful established salesperson is using Customer Stratification to get great results

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Introduction

When Donnie Smith told his mother that he was planning to leave his job as an HVACR technician at a regional hospital where he had worked for over 20 years to pursue a career in sales with a local HVAC distributor, she encouraged him. "That will be great! You've always loved visiting with folks, Donnie. And now they will pay you for it!" And sure enough, Donnie took the call log he was given, started "visiting" with his assigned customers and proved to be a very successful salesperson. After 18 years, he has become one of the top salespeople for ACR Supply Company (ACR), the leading HVAC & Refrigeration distributor in North Carolina.



Donnie Smith

So naturally, when the leadership team of President Troy Meachum and Vice President Sales Kevin Parsley told the sales team that they were investing in the E&A/StratMax customer stratification tool to help ACR drive



profitable growth, Donnie had some skepticism. Having worked in sales at ACR for so long, he felt that he had a good grasp on his territory, was respected by his peers, and was one of the company's top revenue producers. Nevertheless, as he revealed to us in a recent interview, Donnie approached this new tool with an open mind. "I love to read and learn" and "I enjoy being successful, making money, and sharing my success with my family". The promise of knowing more about his customers than he ever knew before, allowing him to sell more and be more profitable, were motivation for Donnie to learn more about the E&A/StratMax customer stratification tool.



Customer Stratification Solutions

E&A/StratMax Partnership





“Million Times Better”

Troy Meachum and Kevin Parsley are progressive leaders who pursue best practices in wholesale distribution to run their business as profitably as possible. Over the years, they haven't been afraid to implement various new processes and training to help support their sales team. Like most salespeople, Donnie always worries that new initiatives or training might reduce the time he could spend with his customers. "I try to be positive and open-minded, but in the back of my mind I am always worried that this is another death march that is going to take me away from my customers". But for Donnie, the E&A/StratMax customer stratification tool is different. "It is a million times better than anything we have ever had before" said Donnie. "It gives me the right data I need about my customers and has changed the way I call on my customers." The fundamental principles of customer stratification have become part of his vocabulary and he has now consciously changed the way he interacts with his customers.



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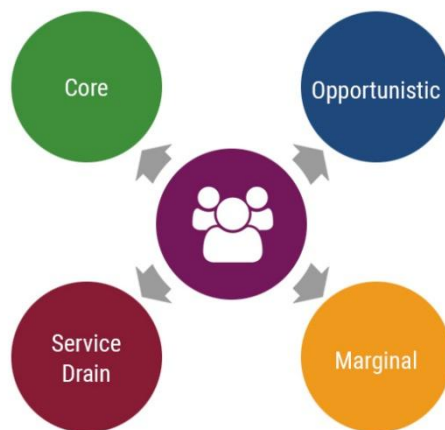




Know More

With customer stratification, Donnie knows more about his customers than he ever did before. "In my gut, I had a good idea that some customers were less profitable. But with StratMax, I was able to see exactly why." And it isn't always easy facing the objective reality about customers that the tool reveals. Donnie admitted that "a few of my larger customers who were labeled Service Drain hit me personally at first. But because I could see the factors that made up their rating, I could focus on the cost-to-serve factors that were driving their results." Donnie has been successful in improving a lot of these Service Drain customers and migrating them to Core customers.

Donnie loves how the E&A/StratMax solution is customized to ACR's business and to him personally. "StratMax really listens to our needs and make changes quickly. When they created my 'Donnie Dashboard' of just my customers, it was a game changer for me. It lets me keep track of my Core customers all the time. I check it every day on my phone because I know these Core customers are the ones that put food on the table."



Customer Types

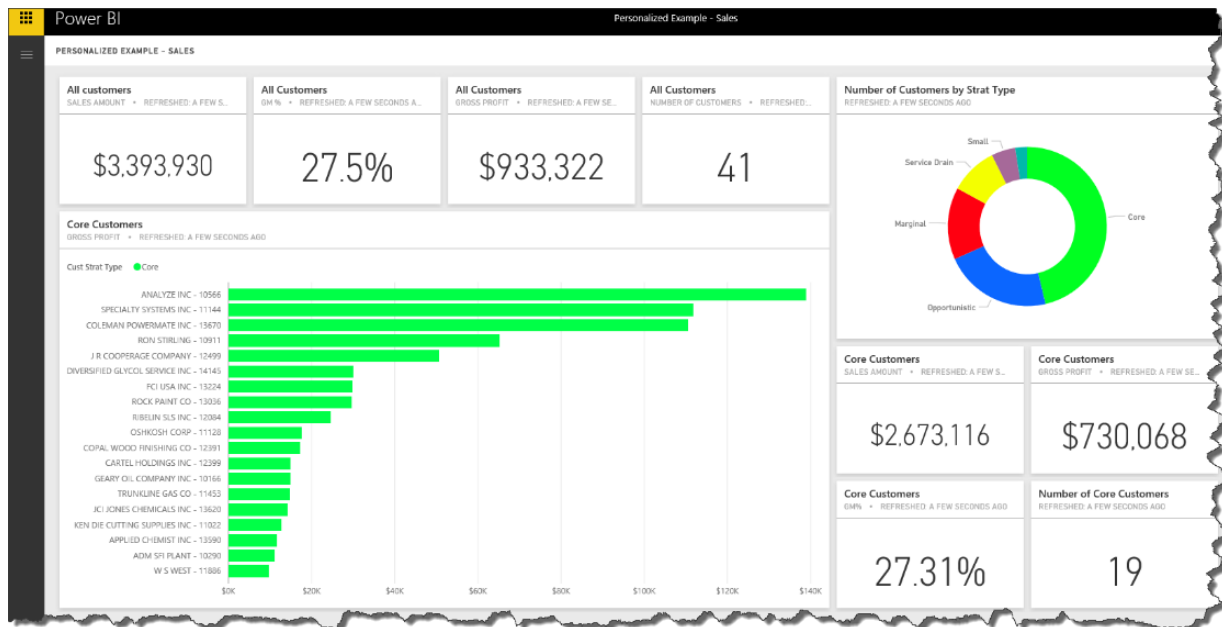
Core: They buy a lot from you, are very loyal, your profitability is good, and your cost-to-serve is low. Typically, Core customers comprise 10-20% of your customers but 80-90% of your profitability.

Service Drain: Good sales volume and loyalty, but they have beaten you down on pricing and have a high cost to serve. Service Drain customers are measurably less profitable than Core customers.

Opportunistic: Very profitable and low cost-to-serve, but they don't buy much from you and aren't loyal. Typically, Opportunistic customers are your competitor's Core customer.

Marginal: Revenue is low, loyalty is poor, but they still beat you down on price and have a high cost-to-serve. Distributors lose money on almost every transaction to these customers. Typically, a large number of Marginal customers comprise a low percentage of your overall sales.





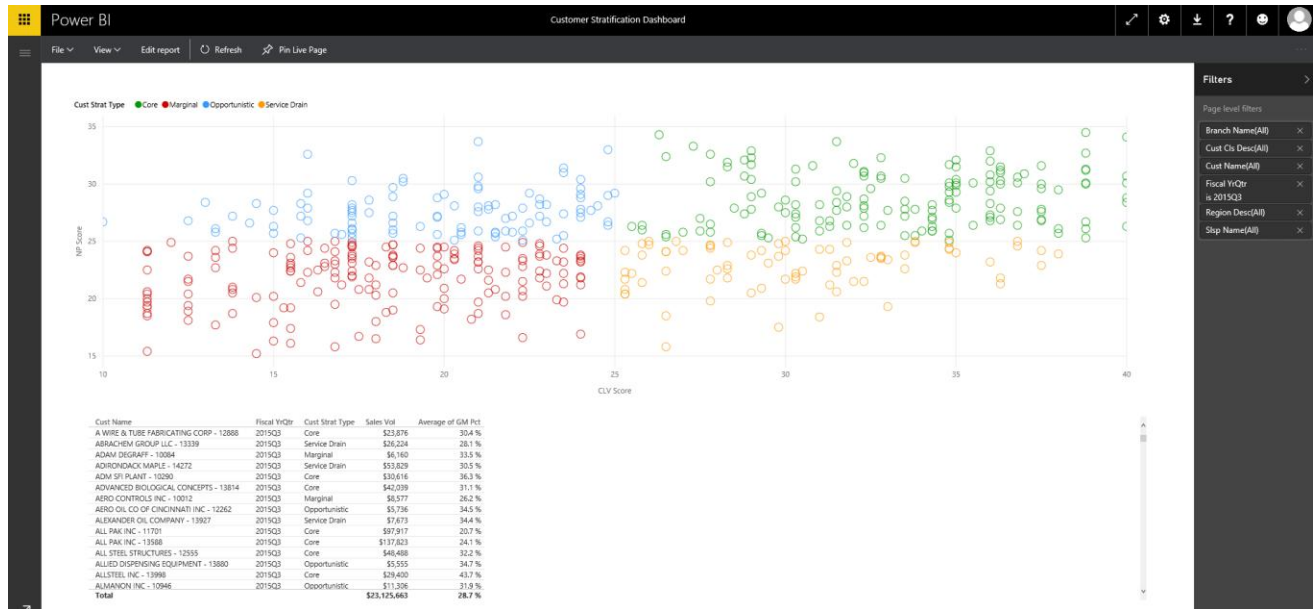
Example of the type of personalized dashboard that StratMax provides to the sales team, updated daily with the latest rolling 12-month results. (This is similar to the "Donnie Dashboard", however data shown is anonymized test data from an actual distributor.)

Customer stratification has now become an integral part of the sales territory planning for Donnie and the rest of the sales team at ACR. It has allowed them to focus their sales time on the most profitable customers while eliminating sales time spent on Marginal or Service Drain customers. For example, prior to the stratification of his customers, Donnie had a regular "milk run" that he did once a week where he spent a full day calling on a group of customers over an hour away from his branch. "Kevin and I had talked many times about whether it was worth my time to go there each week. Once we saw the stratification results for those customers, they were all either Marginal or Service Drain. This confirmed our gut feelings and gave us the will to make a change."

Kevin and Donnie implemented one of the StratMax recommended strategies of migrating these customers to a different sales support model. While Donnie still keeps in touch with these customers via phone and email, he eliminated his weekly "milk run" and has his inside support person contacting these customers.



"This has freed up additional time for more face-to-face contact with my Core customers" explains Donnie. "Some of the customers complained a little bit at first because I wasn't going to see them every week and they missed visiting with me. But they quickly got used to our new support model and our sales have actually grown with these customers."



Typical stratification results as displayed in the interactive Power BI dashboard. Each circle represents the exact stratification of each customer based upon their Customer Lifetime Value and Net Profitability scores. Core customers are green, Service Drain are orange, Opportunistic are blue, and Marginal are red. Users can filter the results by branch, customer class, region, or salesperson. Data table can be sorted by columns and all data is interactive.



Sell More

Once you know more about your customers, it opens up new areas for your sales team to concentrate in order to grow revenue. The E&A/StratMax solution comes pre-loaded with over 60 proven strategies that have been utilized by wholesale distribution to effectively and successfully leverage their customer stratification insights.

Not everyone at ACR uses the tool the same way, but everyone there can get up and running in a matter of minutes. Donnie found that "it only took a little training and I was able to immediately find insights about my customers." There are some users who are better than others in utilizing all of the features. Donnie admits that he is still learning to use some of the more advanced capabilities of the solution. "I still pick the brains of other sales reps like Reid Davis who have learned to dig deeper."



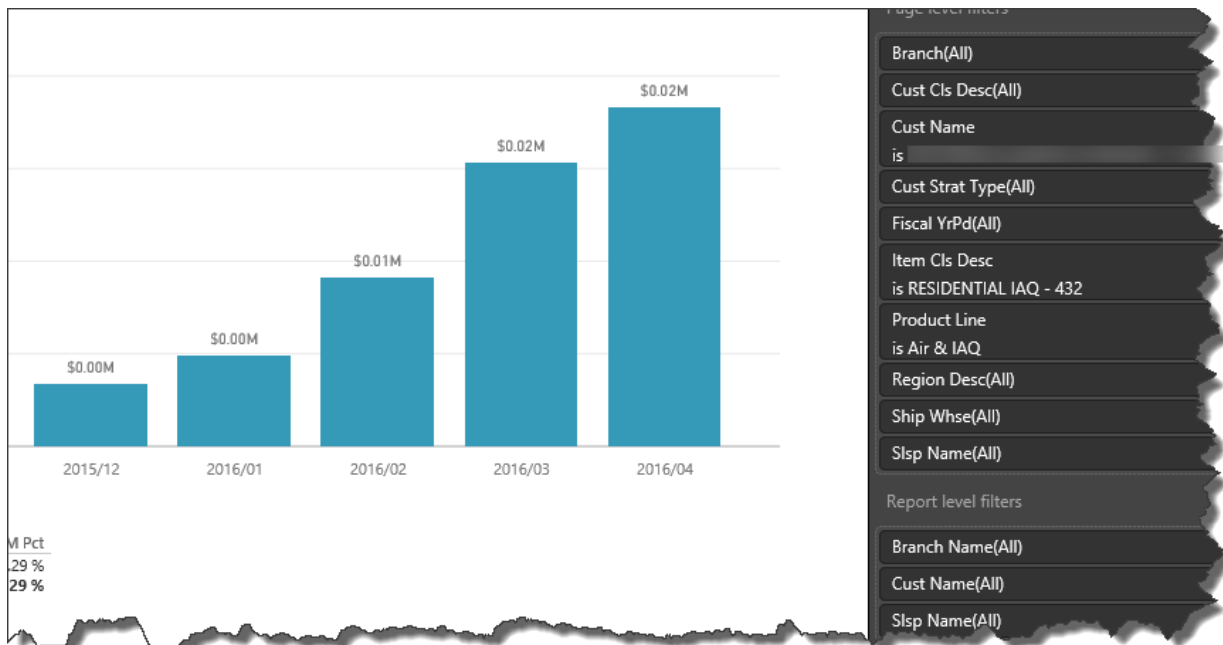
Strategies are delivered to the sales team via an interactive dashboard that allows them to find strategies by user, strategy, or customer label type.

The E&A/StratMax tool promotes this type of powerful collaborative learning. For example, Donnie has helped mentor other members of the ACR sales team. "The other reps know that I have always done well with hospitals. They can look at the



hospitals they are calling on, see what they are selling now, then look at the ones I call on and what I am selling. We then talk about the product gaps, target pricing, and the strategies for penetrating this type of customer." Donnie has learned from other members of his team as well. "Rodney Smith has created 'boxes' for some of his contractor customers that contain key parts for heat pumps. I can use the strat tool to target similar customers for the same solution."

One of the "Stretch" strategies that Donnie has used for one of his Core customers is to increase the product line penetration. "I saw in the strat tool that I had a Core customer who was not buying Ultravation products. I knew this could be an upsell item for the customer and a higher margin product for us." Donnie made plans to show the customer the benefits of the product and then executed that sales plan. He has seen a significant sales increase in this product line, deepening his relationship and expanding his share of wallet with the customer. "The customer is now even making outbound calls to his customers about this product. It has become a win-win for both of us. StratMax helped me find a new area to sell more to a good customer."



Sales growth of Ultravation products to targeted customer by Donnie creating sales plan based upon StratMax strategy of product line penetration.



Customer Business Reviews

Once you have identified the Core customers who make up 80-90% of your overall profitability, it is important to protect them from your competitors and continue to stretch your relationship with them. StratMax highly recommends the implementation of a regular business review process with all Core customers that validates and enforces the value the distributor is delivering. ACR has implemented this strategy with their entire sales team, with a requirement to perform at least one business review with a Core customer each month. StratMax helped ACR develop the template for each of these business reviews, using the insights from the customer stratification tool as the foundation for each review.

ACR has found that this business review process has been transformative. "We used to just survey all of our customers and ask them a bunch of questions about our service," recalls Donnie. "Now we do face-to-face business reviews with the decision makers of our Core customers and talk about the stratification results. Since the factors are relative to their business, they love it". These business reviews are so successful because the E&A/StratMax tool is based upon the factors that are related to the customer's activities and customers are measured against other similar customers in the same market. "When we show them their grades on different factors, they are very interested in the results. They all want to run their business better. Nobody likes to have bad grades. They tell us that we are providing them insights that no other distributor does."

The StratMax business review process is designed to allow the sales team to have differentiating conversations with their customers, highlighting the value they are delivering, while sharing insights that can help the customer improve their business. The business review can position the distributor as a valued business consultant for the customer. Donnie has experienced how these reviews can differentiate him from his competition:





- "I had one customer that had dedicated three hours of training for his people every Monday in order to improve the service to his customers. I was able to show them that they had the lowest return percentage of any of our similar customers. They really appreciated the validation that their training was working."
- "We showed one customer how their Days to Pay grade was a 'C' compared to other customers. When we went to lunch with them after the business review, they told us that 'we want to be an A on that factor; we will work on it.' It turned out to be a great way to have the difficult conversation about how they pay us."
- "I had one customer where we serviced two different shops. We showed them the different product lines and items that each shop was purchasing. They had no idea how different they were. They told us that nobody had ever showed them this before."



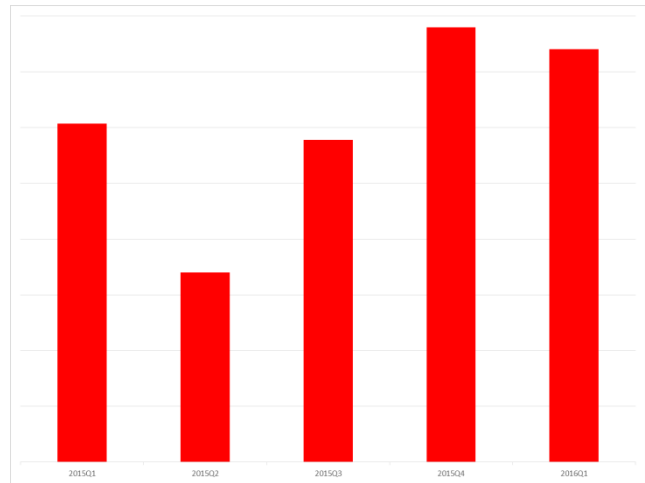
The "Money Page" view for a customer, showing not only their customer stratification label, but also all of the factors that go into determining their scores for the Buying Power, Customer Loyalty, Profitability, and Cost-to-Serve dimensions.





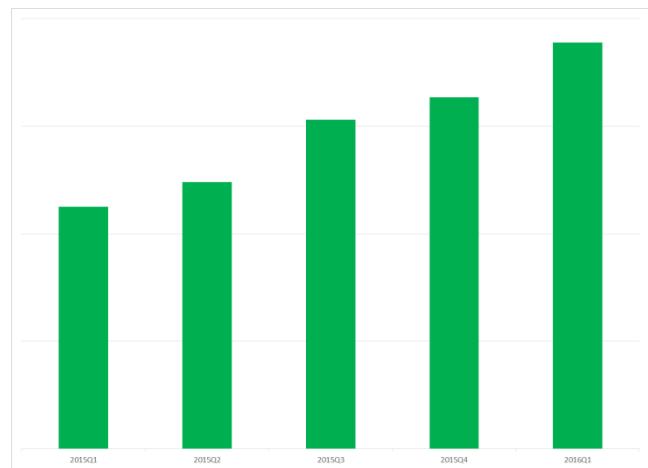
Make More

One of the most powerful aspects of customer stratification is the ability to identify profit leaks and take action to plug them. One of the "low hanging fruit" strategies that StratMax provides is to modify your pricing based upon stratification type. Donnie observed the benefit that one of his peers had with this strategy. "Matt Thomas decided to eliminate all of his contracts (special pricing) on his Marginal customers. After seeing the improvement he had, I did the same thing for my Marginal customers. My rate with these customers, who we usually lose money on, has steadily improved," said Donnie.



Donnie's Marginal customer gross margin rate during his customer stratification journey

Donnie's efforts to work on his gross margin rate have shown steady improvement. He has continued to grow sales revenue without sacrificing gross margins. In fact, he has been able to steadily grow his overall gross margin rate. Selling more at a higher rate is a prescription for making more money. "With the customer stratification tool, I am able to selectively raise prices on the customers that aren't profitable," said Donnie. Salespeople often worry that price increases will cause customers to move their business to another distributor, but Donnie has rarely seen that happen. Most Marginal customers accept price



Donnie's overall gross margin percentage has grown ~150 basis points during his customer





increases and keep on doing business with ACR. "They know that the service we deliver is worth the price we charge."

The customer stratification tool can also highlight areas for process and inventory improvement. It provides a clear understanding of which inventory movement types are being purchased by the four customer types. It can also highlight inventory or product lines that are potential issues for all customers. Donnie found this type of inventory problem with several of his Service Drain customers. "When I looked at the reason for their low grades on percentage of returned items, I found a common product we were selling across several Service Drain customers. It turns out this product had a high number of defects. I showed it to management and we decided to quit selling the product." This type of cost-to-serve issue may have gone undetected without the customer stratification results elevating the issue to the sales team. Handling returns is expensive for both the distributor and customer. By eliminating this product with a high defect rate, both ACR and the customer have become more profitable.





What's Next?

StratMax has found that distributors who stratify their customers find the process to be an extremely enlightening experience, just as it was for Donnie. But we believe that customer stratification is a journey, not a destination; the initial stratification is only the beginning. The value a distributor derives from stratification increases with each additional step of the journey. During ACR's customer stratification implementation, the sales team needed only a few hours of training to be up and running with the tool. Over time, they continued to learn more advanced skills and discover the best practice strategies for leveraging the tool. By making customer stratification the heart of their sales planning process, ACR experienced some impressive results during the first year:

- Sales growth is strong but gross margin growth is almost twice the rate of sales growth
- Gross margin percentage has improved ~200 basis points
- Gross margin dollars increased ~\$500,000

With these positive results, ACR is planning on taking the next step in their customer stratification journey. "During the first year, we were encouraged to learn about the tool and get the most out of it. Going forward, utilization is going to become a part of our Pay for Performance plan" notes Donnie. ACR is planning to add three new

Label	Customer	Strategy	Factor/Grade	Action step(s) to complete this strategy:	Updated On:
Core		Protect Stretch	Product Line Penetration	Set up buildings as part #s to make filter ordering seamless On Going	4/18/16
Core		Protect Stretch	Product Line Penetration	Set up Zoom Lock Class (Sporlan) * Had class with them 3/15/16	3/20/16
Core		Protect	Product line penetration	Introduce new Honeywell steam humidifier (complete) (Sold first one to them)	4/11/16
Core Service Drain		Protect	Product line penetration	Set up Gates Belt training for HVAC shops (have class set for 10am on 4/19 in North Shop)	4/4/16
Core		Protect	Educate to sale	Set up on site Honeywell VFD training	3/7/16
Core		Protect	Product	Set up Ultravation	4/11/16

Example of a territory plan using customer stratification as the heart of the sales planning process



components to their plan that will be measured based upon customer stratification results by salesperson:

1. Revenue growth in Core customers year-over-year
2. Gross Profit dollar growth for Marginal customers
3. Gross Margin % for Marginal customers is greater than Gross Margin % for Core customers

Donnie was receptive to these changes. "I like the new program. It will keep me focused on the most profitable customers. I know this will impact my compensation positively if I do well. I don't like to make bad grades." While ACR's plan right now focuses on Core and Marginal customers, their next steps will be to work with StratMax to create new metrics that will help them focus on profitable growth with Opportunistic and Service Drain customers, as well.

Good to Great

Donnie Smith was already a successful salesperson, just as his mother had predicted. You might argue that he didn't really need a customer stratification tool. But, like most successful salespeople, Donnie strives to be the best.



"I still touch all customer strat types, I just do it differently now than I used to. I haven't fired any customers. I just now consciously spend more time with my Core customers"

Donnie Smith, ACR Supply Company



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He has shown that even an experienced and successful salesperson can use customer stratification to know more about his customers, leading to improved sales processes. He utilizes the tool to stretch and develop his customers in new areas. He is able to concentrate his sales efforts on the right customers, doing the right activities that drive profitable growth.

Know more, sell more, make more: the E&A/StratMax Customer Stratification solution.



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About the E&A/StratMax Solution

Instinctively, you know that not all of your customers are the same. Some are more profitable than others. Research has shown that typically 80% of a company's profitability is concentrated in 10% of their most profitable customers while 75% of customers represent less than 5% of their profitability. But how do you objectively determine which are the most and least profitable customers? And how should you treat them differently?



The E&A/StratMax Partnership

E&A and StratMax have partnered to help distributors answer these questions with its Customer Stratification solution. Adhering to industry best practices articulated by the National Association of Wholesaler-Distributors (NAW), the E&A/StratMax customer stratification solution allows businesspeople to implement strategies that drive more profitable growth.

How it Works

Leveraging your existing ERP investment, E&A and StratMax work with your management team to tailor the factors in the customer stratification model that are most relevant to your business. The E&A/StratMax solution leverages the quantifiable information within your ERP system. The customized model is delivered to you through a cloud-hosted solution that features easy-to-use, interactive dashboards. Gain unique insights into your business – and your customers – all in one place.

E&A has teamed with StratMax to turn your data into actionable information. StratMax business consultants will help ensure that you are doing the right things with the right customers to boost your bottom-line profitability. Over 30 years of sales and marketing experience has established StratMax as the leading



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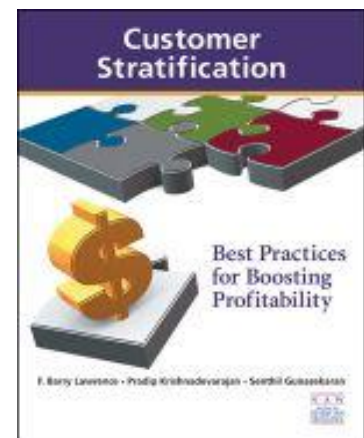
practitioner of customer stratification strategies in the wholesale/distribution industry.

What it is

The E&A/StratMax customer stratification solution is a set of sophisticated yet easy-to-use tools that are customized to your business. Empower your sales team with strategies that have been proven to drive more sustainable, profitable growth.

Key Components

- Groundbreaking industry research by the National Association of Wholesaler-Distributors (NAW) serves as the foundation of the E&A/StratMax solution. ["Customer Stratification: Best Practices for Boosting Profitability"](#)¹ is the definitive guide to Customer Stratification, a tool that can help distributors identify their most profitable customers. The book is published by the National Association of Wholesaler-Distributors (NAW) in collaboration with Texas A&M University.
 - Customer Stratification processes data in your enterprise resource planning (ERP) system through an algorithm that tests key customer profitability factors such as buying power, loyalty, profitability and cost-to-serve. The insights yielded can guide you to spend more time on profit-building customers; and less time on money-losing customers.
- The customer stratification model is customized to each client's unique business needs.

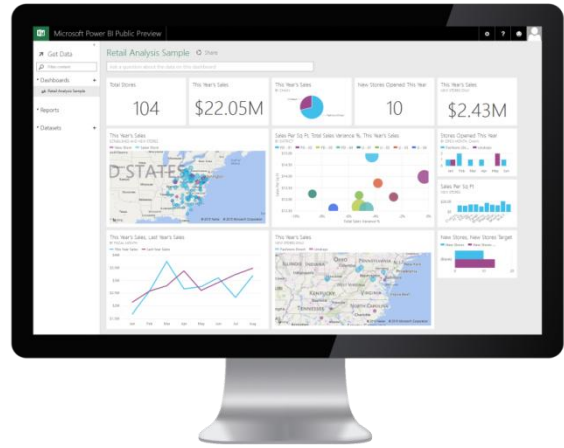


"Customer Stratification: Best Practices for Boosting Profitability"





- Results are delivered using a powerful cloud-based, interactive dashboards built on the Microsoft Power BI platform.
- The comprehensive solution combines E&A’s technical expertise with StratMax’s hands-on customer stratification management.
- Creative strategies to ‘stretch’, ‘develop’, ‘examine’ and ‘protect’ your customers are provided by industry experts with deep industry knowledge.
- Model data is updated quarterly on an ongoing basis to help your business gain control of a rapidly changing competitive environment.
- No more sifting through reams of paper reports and complex spreadsheets to get the vital data you need to develop more effective sales and marketing strategies.
- Empower your sales and management team to collaborate and sell more effectively using the backbone of the Power BI cloud-based application, E&A’s business intelligence tools and online access to StratMax consultants.
- Best practices, case studies of additional strategies, and personalized training and implementation services are included.
- A significant upfront capital investment is not required to get started.
- “Pays for itself” as license holders implement strategies that drive profitable growth and EBITDA improvement.



Power BI Platform

Benefits

- More Accurate Sales Force Deployment
- Improved Negotiations
- Identify New Growth Opportunities
- Understand Cost to Serve (CTS)
- Optimize Pricing for Greater Competitiveness and Profitability
- Better Inventory Management



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- Better Marketing Communications
- Targeted Sales Force Compensation

Industry studies have demonstrated that Customer Stratification can significantly drive EBITDA improvement, with positive effects across the business enterprise.

What you get

- Copy of NAW Research book “Customer Stratification: Best Practices for Boosting Profitability”
- Full Day Onsite Modeling Workshop (Facilitated by StratMax)
- Full Day Onsite Management and Sales Team Workshop (Facilitated by StratMax)
- Daily Profitability Trends Updates – Business Intelligence
- Interactive Dashboards
- Over 60 Proven Best Practice Strategies in an Interactive Dashboard
- Model Updated Quarterly
- Best Practices Web Conferences
- E&A Online Learning Modules

Learn more

To learn how the E&A/StratMax sales collaboration solution featuring Customer Stratification can help grow your wholesale/distribution business, scan the QR code or go to www.earnestassoc.com/customer-stratification.



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References and Acknowledgements

1. 'Customer Stratification: Best Practices for Boosting Profitability' by F. Barry Lawrence, Ph.D., Pradip Krishnadevarajan and Senthil Gunasekaran. The book is available at the National Association of Wholesaler-Distributors (NAW) website at http://www.naw.org/publications/pubs_item_view.php?pubs_itemid=145.

