



4 Ways to Increase eCommerce ROI with Customer Stratification

Solutions for Wholesale/Distributors

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The Case for Online Distribution

Many small to medium sized businesses (SMBs) in the wholesale/distribution industry have been slow to embrace e-Commerce. Perhaps the Baby Boomers who own most of the privately-held SMBs in the U.S. were themselves reticent to do business online; and believed their customers shared in this skepticism, too. If this assumption was ever true, the fact that [U.S. e-Commerce grew 14.6% in 2015](#) proves that the time to remain on the sidelines has long since passed.¹

There are several factors driving e-Commerce. [At 75 million strong, Millennials are the largest demographic group in the U.S.](#) Millennials often prefer to do business online. As Boomers retire and Millennials advance in their careers, it's a certainty that you must have a strong online presence to find the next-generation buyers who are crucial to your company's long-term success.²

Another important factor is increased competition in the wholesale/distribution industry. Storefronts are often deployed for fear of losing sales to new, online competitors. These include e-Commerce sites launched by national distributors (Grainger), e-Commerce giants (AmazonSupply) and niche, Web-only competitors (PlumbingSupply.com).





The Case for Increasing Online ROI

SMBs like you have limited resources. You probably cannot afford to spend millions building a web business through search engine optimization (SEO), pay-per-click (PPC) advertisements, video blogs, and the like. For most SMBs, e-Commerce return on investment (ROI) is achieved in a more mundane but no less important manner: through lower transaction costs and building closer, more profitable relationships with existing customers.

As a distributor, you must take care to build an e-Commerce site that supports B2B transactions. Software applications such as Infor Storefront (.pdf) can be configured to project the business logic inherent in your ERP application onto the web. When customers login to your site using their credentials, they can view their customer-specific pricing, past purchase histories, wish lists, and other pertinent information. In fact, the self-service experience can be designed to closely replicate how customers might normally interact with you through traditional sales channels such as onsite sales, phone and catalog.

However, building the storefront and leaving things to chance simply won't do. It's imperative that you direct marginal customers to the site where you can transact with them at a significantly lower cost-to-serve (CTS) than before. You should ensure that core customers know how to use the storefront in order to retain their loyalties with you. The trick, of course, is to identify those specific customers who fall into these two groups. This knowledge will help you act on cultivating the user base for your storefront as rapidly as possible. That's where customer stratification can help.

["Customer Stratification: Best Practices for Boosting Profitability"](#) published by The National Association of Wholesaler-Distributors (NAW) provides guidance to distributors who want to maximize the opportunities that come with winning business online. Customer stratification analyzes key dimensions including buying power, cost-to-serve, loyalty and margins. Empowered with this information,



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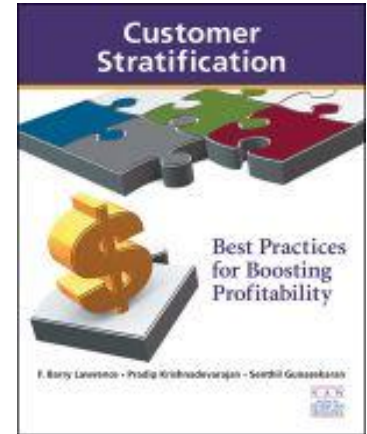
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distributors can implement more effective sales and marketing strategies than otherwise possible.³

The following discussion applies these concepts to e-Commerce. As we hope to demonstrate, distributors like you can increase ROI significantly by focusing on the needs of the diverse customers served.



"Customer Stratification: Best Practices for Boosting Profitability"



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4 Ways to Apply Customer Stratification to e-Commerce

We see distributors applying their customer stratification analysis to e-Commerce in a number of useful ways, including:

1. Increase the Number of Online Orders

Distributors can encourage their sales teams to get more of their 'core', or best customers to order online. The goal is to increase stickiness: by getting customers to order through the storefront, they become less likely to seek out competitors.

Customer stratification can identify the core customers that matter the most to your business. The baseline of support provided by these core customers is critical to your company's sustainability and profitability. You'll want to retain great customers who consistently place above-average order sizes, pay on time, and rarely return items.

In particular, your salespeople should plan to reach out to the next generation of Web-savvy buyers. Millennials will not hesitate to talk about their positive experiences with your company using social media, making them very important to your company's future success. You should be highly motivated to captivate these customers. As you steadily increase the number of online orders, the Millennials' loyalties will ensure that the future belongs to you.

2. Increase the Percentage of Online Orders

Distributors can measure the percentage of orders placed electronically versus manually. Better grades are assigned to customers who buy online. This data point can be factored into the customer stratification analysis.





Importantly, because the Web should become the preferred sales channel for less profitable customers, you must identify your service drain and marginal customers. Minimize or eliminate all 1-to-1 sales interactions with these customers (unless the salesperson has a specific plan in mind). Encourage your less profitable customers to embrace your storefront through marketing outreach. As you successfully increase the percentage of online orders, your bottom-line profitability will inevitably improve.

3. Improve Customer Margins

Distributor salespeople have often been quick to cut prices to retain their customers. With the rise of online competition, customers have succeeded in winning concessions from distributors, pushing margins down over time. A customer stratification analysis that includes margin-trending data can succeed in naming these specific customers. Decision makers need this critical information to maintain profits at a reasonable level.

For example, a policy might be implemented that future price discounts for these accounts require approval from a higher-level sales manager. Alternatively, some of your smaller accounts might be assigned a Web-only status where they may be less inclined (or able) to haggle with you. Online customer margins will improve when your management team has greater control over the variables that impact your bottom-line profits.

4. Harvest More Business from Online Customers

Distributors should be on the lookout for Web customers whose spending is concentrated in a relatively small number of items. A customer stratification analysis that utilizes Buying Power can help you identify those opportunities. It's likely that some purchasers discovered your storefront because they were in a



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pinch: their primary suppliers were out of stock and they needed their products right away. You'll want these potentially lucrative new customers to buy more from you. The trick is to know which ones represent the greatest potential. That's where Buying Power comes in.

Let's say that you have two online hospital customers of similar size that are buying regularly from you. The difference between the two is revealed through the Buying Power analysis. You might discover that Hospital Customer A buys 4 product lines whereas Hospital Customer B buys only 1 product line from you. The implication is that you have an opportunity to sell additional product lines to Hospital Customer B similar to what you are selling Hospital Customer A. Buying Power analysis has the ability to identify the product lines, items, and price levels to replicate the success with one customer to other similar customers.

Buying Power provides actionable information. Your sales team is empowered to harvest more business from those specific Web customers who offer the greatest upside potential to you – a key to boosting sales and profits.





Conclusion

Distributors must compete online. With limited resources, distributors must have a clear path to ROI. A customer stratification analysis enables distributors to achieve faster ROI by increasing the number of orders online, increasing the percentage of orders online, improving customer margins and harvesting more business from their online customers.



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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.



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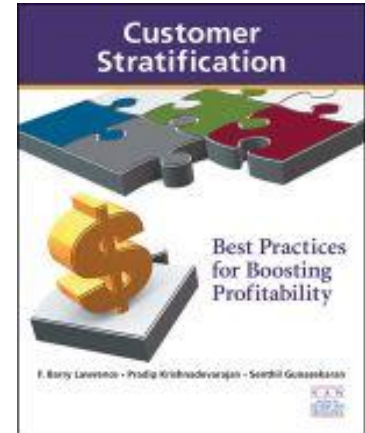
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Key Components

- 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: Best Practices for Boosting Profitability"

- 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.
- 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



Power BI Platform



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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.

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
- 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.



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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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2. "Ecommerce Chart: Online shopping behaviors of Millennials versus Baby Boomers," by Daniel Burstein and Dr. Liva LaMontagne, July 28, 2015, marketingsherpa at <http://www.marketingsherpa.com/article/chart/online-shopping-behaviors-based-on-age>.
3. '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.

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