insiderPROFILES

This article appeared in the OCT ■ NOV ■ DEC 2012 issue of *insiderPROFILES* (http://insiderPROFILES.wispubs.com) and appears here with permission from WIS PUBLISHING.

WIS pubs

Graybar Sharpens Its Focus on Profitability

A Distributor's Plan to Provide Its Salespeople with Fast, Detailed, Actionable Customer Analytics

*by **David Hannon**, Senior Features Editor*

John Mansfield, Vice President of Business Development at Graybar, received a phone call from his boss in May 2011 that provided new insights into the way he approached his job. He would now lead the $5 billion distribution company to adopt a new customer strategy and pilot one of the most cutting-edge technologies in enterprise software, SAP HANA.

Mansfield's manager, then Graybar's Executive Vice President and COO, Kathleen Mazzarella (currently Graybar's President and CEO), phoned to say she was mailing him a book based on a detailed research study of wholesaler-distributors' current practices in stratifying their customers.[1] "You need to read this," Mazzarella said. "I think this research has the potential to have a big impact on our business."

The study published in the book found that the majority of distributors were not leveraging customer stratification strategies effectively, if at all. It identified four factors to consider as a best practice: buying power, customer loyalty, profitability, and cost-to-serve. The study also outlined a 20-step process that would help salespeople understand which customers needed the most attention and which could be transformed from a resource drain into a more profitable customer.

[1] The book, *Customer Stratification: Best practices for boosting profitability*, is based on research conducted jointly by the National Association of Wholesaler-Distributors and Texas A&M University.

SUBSCRIBE TODAY. VISIT INSIDERPROFILES.WISPUBS.COM.

At a Glance

Objective: Develop a data-driven customer stratification model to drive profitability and leverage best practices

Solution: Co-innovated with SAP to develop SAP Customer Value Intelligence

Benefits: Long-term benefits include increased profitability and more successful customer management

"The research showed that companies implementing these best practices saw significant EBITDA and profitability improvements, which caught our attention very quickly," says Mansfield. "And the best-practice model is based on having an ERP system with structured customer data to use in the stratification. That was perfect for us, because it would allow us to further leverage our SAP investment to improve profitability."

Customer stratification was new to Graybar. Like many other companies, Graybar's sales reps traditionally focused their attention on the customers that spent the most money. But when Mansfield tested the concept early on by showing salespeople detailed data on their customers compared with other customers at their branch based on the buying power, loyalty, profitability, and cost-to-serve dimensions, bells began to go off. "They had never been given this type of information in an actionable format that showed them how to leverage it," says Mansfield.

Building the Data Model

Mansfield understood the impact a customer stratification program could have at Graybar very quickly, and in July 2011, he began the process of building a customer stratification model tailored to Graybar's business. His first step was assembling a cross-functional team with representation from operations, marketing, IT, and finance. He recruited several of the team members from field operations to ensure the project kept field-level customer priorities front and center.

For the next year, the team worked through the best practices recommended in the research study and tailored them to Graybar's business. The correct fields from the SAP system had to be mapped to pull the information into the model and perform the necessary calculations. The team's IT reporting member wrote queries to pull the data from SAP NetWeaver Business Warehouse (SAP NetWeaver BW).

"The good news was that we had about 95% of the fields recommended by the study already available to us," Mansfield says. "We didn't want to create new data but leverage what we had wherever possible."

While the research study provided the calculations to get to the best-practice levels, each of the individual factors had to be weighed to match Graybar's business needs — for example, determining how important

"The best-practice model is based on having an ERP system with structured customer data to use in the stratification. That was perfect for us, because it would allow us to further leverage our SAP investment to improve profitability."

— **John Mansfield**, Vice President of Business Development, Graybar

revenue trend is compared with product-line penetration within the buying power dimension. The mathematics behind the model had to be tested and re-tested to ensure its accuracy.

As the model took shape, the issue of data distribution lurked on the horizon. "We always planned on distributing this information to the salespeople in dashboards, but we weren't sure how we would do it," says Mansfield. During the development phase, the results were presented as a spreadsheet — but the project team knew that wouldn't work for the final product.

Fortunate Timing for Collaboration

After a year of steady effort and with the model nearing finalization, SAP contacted Graybar about collaborating on an upcoming solution called SAP Customer Value Intelligence, powered by SAP HANA. As the business point person on the co-innovation project, Mansfield began reviewing the solution and immediately saw a component focused on customer stratification.

"Given the stage of our project and our work in customer stratification, I was intrigued by that capability and the idea of collaborating," he says. "SAP was particularly interested in the ability of SAP HANA to much more quickly provide the results of the stratification based on our rather sophisticated model."

At that time, Graybar's stratification model was still producing results in a spreadsheet with many rows of data, using letter grades to give final results and recommendations. The project team wanted the information from the model to be delivered to salespeople in a visual format that was both useful to them and easy to understand. To provide a guide for future iterations, Graybar and SAP collaborated and built a dashboard using SAP BusinessObjects Dashboards, which Graybar has since shared with the pilot locations for review. This visualization has been very well received by the pilot locations.

As Mansfield received feedback from Graybar salespeople regarding the dashboard, he passed it on to SAP to incorporate into the SAP Customer Value Intelligence solution. With results still coming in, once SAP has enough feedback, the next step is to build a demonstration of SAP Customer

A Deep Dive into the Benefits of Customer Stratification

The concept of customer stratification is relatively new to many wholesaler-distributors, as noted in the National Association of Wholesaler/Distributors and Texas A&M University research study. But once rolled out, it generates a host of related strategy and business ideas that can transform an organization.

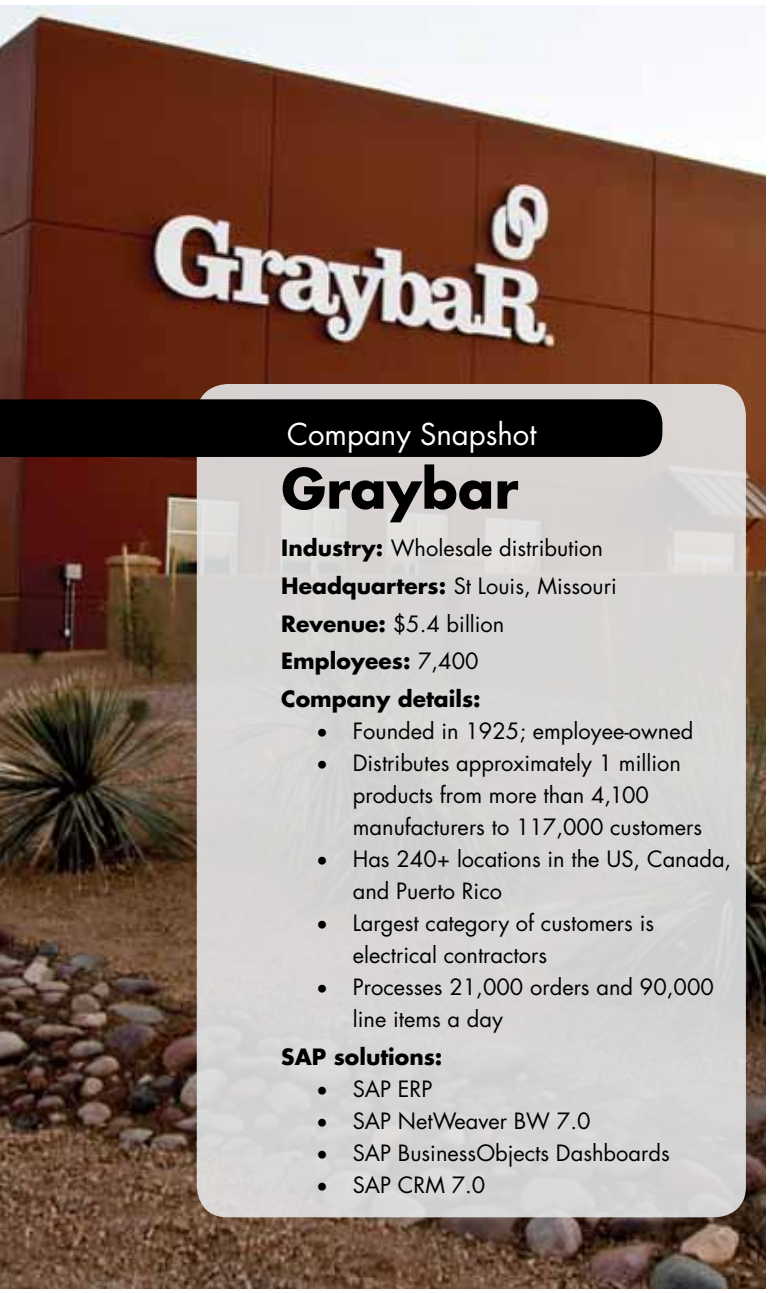
According to Mansfield, during the early training sessions on customer stratification at Graybar, a salesperson was shown how her customers fit into the various categories. The exercise provided concrete data to confirm her gut feeling. The analysis showed the majority of her customers were in the "marginal" category and that her core customer relationships were suffering because of the time she had to spend managing less profitable customers. She and her supervisor began developing a plan for moving those marginal customers to other sales channels, which would allow her to spend more time with core customers that are the most profitable and are believed to have the most potential for future increased profitable business.

With this example in mind, Mansfield says a traditional geographic or product-line strategy for dividing customers between salespeople may be outdated because it could give some salespeople many more profitable customers while another is stuck with marginal, less-profitable ones. And if too many core customers are managed by a single sales rep, some are likely to be neglected.

"We can use the data to better manage the sales time with our customers to drive and increase profitability," says Mansfield. "This analysis provides us the information we need to develop strategies for each customer type and tells us where we should be spending our time and effort to achieve profitable growth."

Value Intelligence using real-time Graybar data to show real business scenarios. Graybar has agreed to participate in the customer experience phase of the SAP Customer Value Intelligence beta test that is expected to be completed by the end of 2012. See the sidebar on this page for more details.

"Many people have heard about the benefits of SAP HANA at a high level, but they don't fully understand what the results can do for their business, so they are hesitant to invest," Mansfield says. "But this SAP HANA pilot uses our real data and relates to a very specific customer stratification project that is designed to drive profitable growth. Once the investment is tied to profitability, it's much easier to build a case for it. You can describe it all day, but you have to take the ride to get a feel for it."



Company Snapshot

Graybar

Industry: Wholesale distribution

Headquarters: St Louis, Missouri

Revenue: $5.4 billion

Employees: 7,400

Company details:

- Founded in 1925; employee-owned
- Distributes approximately 1 million products from more than 4,100 manufacturers to 117,000 customers
- Has 240+ locations in the US, Canada, and Puerto Rico
- Largest category of customers is electrical contractors
- Processes 21,000 orders and 90,000 line items a day

SAP solutions:

- SAP ERP
- SAP NetWeaver BW 7.0
- SAP BusinessObjects Dashboards
- SAP CRM 7.0

SAP Customer Analytics

SAP Customer Value Intelligence, the analytic application Graybar is co-innovating with SAP, is part of a three-application suite called SAP Customer Analytics powered by SAP HANA. Here is a brief look at the suite:

SAP Customer Value Intelligence provides recommendations on improving customer value. Leveraging advanced and predictive analytics, the application uses real-time customer revenue, margin, and behavior to stratify customers. Recommendations are provided for which customer segments to target and which products to position for revenue and margin growth.

SAP Account Intelligence runs on top of SAP Customer Value Intelligence and provides sales representatives with a focused interface to execute on the insight and recommendations for their accounts, all on a mobile device.

SAP Audience Discovery and Targeting provides interactive, high-volume customer segmentation, a wider data set including social sources, and integration for data mining through SAP Predictive Analytics powered by SAP HANA.

All three of the SAP Customer Analytics applications are powered by SAP HANA. Users of these applications can get a run-time license of SAP HANA. All three applications are in beta now and will be available to ramp-up customers in the first quarter of 2013.

The Rationale for SAP HANA

The question Graybar is asking — and many other companies are asking — is how can SAP HANA improve or innovate what is currently in place? Graybar has already taken dramatic strides in building and implementing its customer stratification model, which has impressed most of the salespeople who have tested it along the way. But some of these people immediately inquired about more advanced capabilities and detailed analyses that are not currently available from the initial dashboards.

According to Mansfield, when salespeople were given customer stratification data during the testing phase, almost without fail, they wanted to stratify customers in their specific geographic markets quickly, drill down into market verticals, and make other comparisons in real time. "And we just don't have the horsepower to do that right now," he says. "SAP NetWeaver BW is a very good solution, but for a company like ours that has a high volume of transactional data, SAP HANA could deliver that kind of information more quickly."

For Graybar, SAP HANA came into the picture as a potential solution at the right time for the right application. But for others, the right pilot case for the technology might not be quite so clear. "The key is to find how the technology can apply to your business in a way that will help you make better business decisions," Mansfield says. "That's the real power of SAP HANA we have seen. If you have an area where there is a lot of useful data that people aren't using, that is an area to look at — then you have an ROI story to tell right out of the gate." ■

SUBSCRIBE TODAY. VISIT INSIDERPROFILES.WISPUBS.COM.