

INSIDE

How to Reframe Outdated Sales Operation Assumptions

Shaped by decades of conventional practice, these habits may do distributors harm more than they help.

Indian River Consulting Group's Mike Marks argues that sales transformation cannot happen for a distributor without releasing these long-held beliefs.

By Elizabeth Galentine

In the last six months or so since we entered the pandemic, companies have been taking time to think critically about their business practices and changing value propositions. In a presentation during MDM's recent Virtual Sales GPS 2020 conference, High-Performance Sales Models: The Next Paradigm, Mike Marks of Indian River Consulting Group reflected on the importance of such evaluations, but also noted distributors can unintentionally slow down sales transformation efforts in the process.

The managing partner at IRCG addressed historical assumptions about distribution that can often hold distributors back. For example, Marks said, many distributors still believe that if they take a field salesperson out of a territory, their business volume will then disappear with the person. However, IRCG's research shows that 80% to 98% of the products a distributor sells to a customer are products that customer has purchased from the distributor before. The customer will likely reorder whether that salesperson is there or not.

"If you're in the construction business and your field sales people are involved with [a customer that has a] 90% repurchase rate, and they're fundamentally doing project management services, you could probably cut your costs a lot and actually hire professional project managers to manage those customers — and the customer can have a better experience," Marks said.

Examine Your Assumptions

Other false assumptions that distributors use to make operating decisions include:

- If a sales rep does a good job with an account, it will be theirs forever.
 - If they are in the office, then they are not selling.
 - Their performance appraisal is their paycheck.
 - Field sales reps are money motivated.
 - I incent them on GP, so they get as much as they can.
 - As long as he is heading that way, he can deliver the product.
 - Discussions around prospecting are uncomfortable and often unproductive.
- "There's pretty solid data right now that says these are in fact not true," Marks said. "So, if you're trying to talk about a sales transformation, it's very important that you examine all of your own assumptions in terms of what you're doing. And make sure that you don't make decisions on assumptions that technically and substantively aren't correct."

In order to avoid poor outcomes, Marks shared some sales transformation models that are working for distributors in today's environment. It's not simply that the pandemic has suddenly facilitated a necessity for distributors to rethink their sales team design. Many started down this road five to 10 years ago, and what the pandemic is doing is magnifying that preparation gap between those who got a head start and those who are just beginning. "The gap between the leaders, the people that have started and are working hard, and those people that haven't even started is getting exceedingly large," said Marks.

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Commentary:

If There Is Any Time to Re-Examine Long-Held Beliefs, It Is Now

We have the opportunity to question the efficiency and effectiveness of our daily routines now like never before.

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EPTDA President on What's Happening in Europe, Plans for 2021

New leader brings decades of experience to the executive position.

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Market Snapshot: Compressors

Market demand for compressors in the U.S. was \$3.3 billion in 2019.

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Skills that are driving their success, he said, include:

- Analytics and Big Data application
- Change in project management and business process design.

“Having had the opportunity to work with a lot of these leaders over the last several years, every one of them have spent years being anal retentive in fighting to get their data clean,” Marks said.

Sales Transformation in Action

In 2017, a beer distributor was growing faster than the market with an EBITDA margin greater than 10%. They were staffed 6:1 inside versus outside sales reps. The company made the decision to separate market-making activity from market-serving activity and lowered their costs as a result.

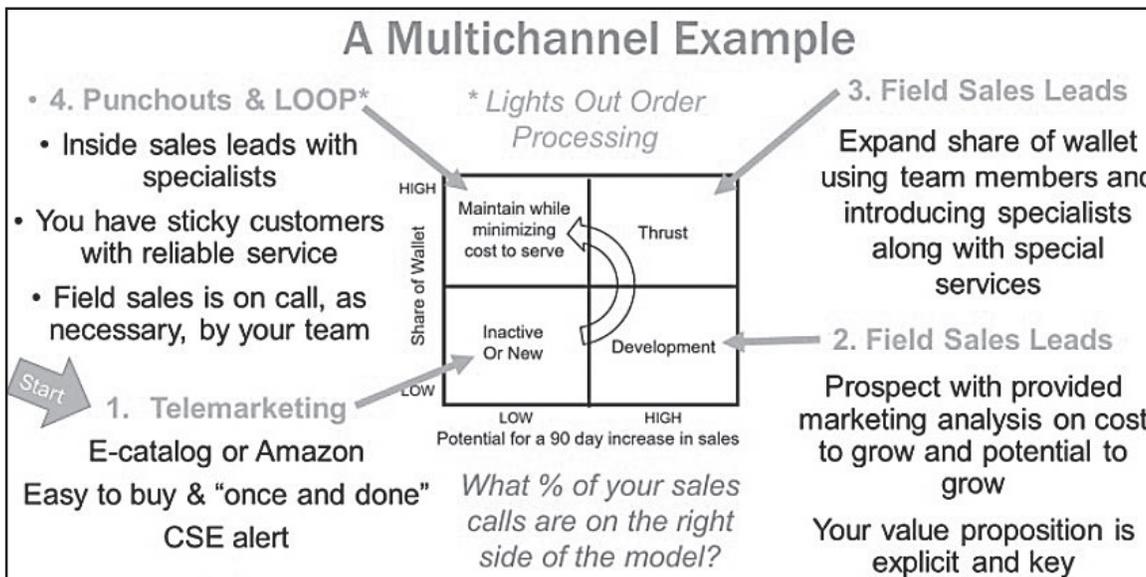
To understand market-making versus market-serving activity, Marks shared an illustration of a box divided into four portions to represent the customer lifecycle. The X axis represents the potential for a 90-day increase in sales and the Y axis represents the distributor’s share of wallet.

2. Moving to the right, the second phase of the customer lifecycle is development, where potential for 90-day sales is high but share of wallet is still low. Think field sales leads where the team prospects with provided marketing analysis on cost to grow and potential to grow. Your value proposition is explicit and key, Marks said.

3. Above, the next box represents the thrust portion of the lifecycle, with high potential for 90-day sales and high share of wallet. This section also operates off of field sales leads but the team is expanding share of wallet using team members and introducing specialists along with special services.

4. The final sector of the customer lifecycle, the top left box representing high share of wallet and low potential for 90-day sales, is what Marks refers to as punchouts and lights out order processing. It consists of inside sales leads with specialists, sticky customers with reliable service and field sales on call, as necessary.

Taken together, the two quadrants on the left are market serving, while those on the right side are market making. With this important differentiation in mind, the beer distributor now has two different kinds of sales reps, one for market making and one for market serving.



1. The customer lifecycle starts in the lower left quadrant of the box, where the customer is inactive or new, with a low wallet share and low potential for sales increase. Think telemarketing activities, an e-catalog or Amazon-type relationship where the product is easy to buy but can also be a one-and-done interaction.

“Market serving says, how do I protect my revenue stream with that customer and create a good, frictionless customer experience? Market making is, how do I displace competition? Or how do I increase my share of wallet?,” Marks explained.

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So, the inside salespeople and digital team became the primary contact for those customers in the top left maintenance box. But when things come up, the inside salesperson will call a field salesperson to intercede if needed. They are able to maintain the 6:1 inside versus outside salespeople because field salespeople are not involved in recurring transaction management.

Four Levers to Reduce Costs

Marks shared four strategic levers distributors need to pull in order to reduce costs.

1. Role specialization takes lower economic valued tasks away from field sales reps and groups them into full-time new roles paid appropriately for the value provided. “No customer is ever going to go to a website and confess all their supply chain problems to some

The aim of marketing is to know and understand the customer so well the product or service fits him and sells itself.

— Peter Drucker

anonymous website,” Marks said. “Sales people earn the right to have that conversation.”

2. Replace artisan processes with digital alternatives that will cost less but be more responsive, consistent and reliable. “What you’re doing is taking the labor component out of answering customer requests,” he said.

3. Segregate market making activities from market serving activities. Seen above in the beer distributor example. This will require some turnover and transition, Marks warned.

4. Create and provide clear value propositions and support tools for sales reps to augment or replace the critical ‘sell yourself first’ value proposition. “A lot of times for lifestyle distributors, their value proposition is a relationship with the field salesperson,” Marks said. “It’s not a relationship that’s business to business. And that’s one of the big things change.

The Power of Competitive Advantage in Business Models

There is always a gap between what distributors think they are selling and what their customers are actually buying from them, Marks noted. A fan of Grainger for years, he used the distributor

as an example of a company that identified the right model for innovation: They will try something new, and if it doesn’t work they do not punish the people who were responsible for it. Rather, they conduct “after action reviews,” a formal process that asks, what can we learn? How do we do it better next time?

As one of the largest distributors of professional batteries in the world, Grainger is a well-known name. But even with their name recognition and history of innovation, a lesser known distributor, AED Superstore, has been able to compete by addressing what the customer is really buying when they purchase a professional battery. In this case, one used to power a defibrillator to assist someone having a heart attack.

According to Marks, AED offered a \$10 million indemnification bond to customers that lets them know if the battery in a defibrillator should die, AED will cover the customer’s first \$10 million in liability. Each product is registered and AED is responsible for replacing batteries, not the customer.

The AED business model exploits the gap between what the customer is actually buying versus what is being sold. “They’re selling risk management, and Grainger was selling a product,” said Marks.

A distributor will not create any competitive advantage without changing their value proposition to increase customer switching costs. Low switching costs result in low gross margins for distributors, he added.

Value Propositions in a Business Model

As management consultant Peter Drucker put it, “The aim of marketing is to know and understand the customer so well the product or service fits him and sells itself.”

Competitors with the same business model know each other well, Marks said. In order to differentiate from each other to create sticky customers, distributors try to provide their customers with a better alternative by adding services, products and subscriptions and valuing them over transactions. But the real threat, Marks said, is people who come from the outside.

A value proposition — a distributor’s tool to combat competition — is a solution to a set of customer problems. A business model has two parts, who are the group of customers you’re going to serve? And then, what are you going provide for them?

Marks noted a business model is not

complete without customer segmentation. Otherwise, a distributor opens itself up to poaching risks by not understanding the cross subsidies of its customers. For example, Marks did strategy work for an electrical distributor whose largest customer was a contractor who turned out to be buying huge amounts of product from Amazon. "Customers want different things. Sometimes they want full service. Sometimes they just need product. That's called situation sourcing," said Marks. "Good segmentation segments your customers by how they want to buy."

This is critical to understand for a distributor who wants sales transformation. Some customers want and need full service, long-range planning, while others are very self-sustaining. Good segmentation design creates maximum similarity within a segment and maximum dissimilarity between segments. But, Marks warned, the old-school approach to breaking up business by industry served or size is poor criteria for today's customer. Instead, he said, segment them by how they want to buy. Electrical and plumbing industry distributors took a hit in the '90s when they didn't do this and Home Depot swept in and took the small contractor business.

Segmentation exposes cross subsidies and also identifies opportunities.

Examining the Team

Marks highlighted several questions for a distributor to ask themselves about the role of their sales team members in the company's sales transformation journey.

He noted the least productive territory design is to assign full responsibilities for all customer activities in a geography to a field salesperson.

- What are they supposed to do to help you market your value proposition and sell services?
- What are their responsibilities for growth?
- If the only thing you're measuring is how many GP dollars they generate, you're missing a lot.
- You need to know, what is my share of wallet with that customer? Am I the No. 1 or No. 2 supplier with that guy?
- What is my financial return on the customer when I'm in the No. 1 or No. 2 or No. 3 position?
- What segments should they serve?

"We've always figured that we never had to manage salespeople because their performance appraisal was their paycheck," he said. "It's a lot more complicated. You need to really think about which customers you want to invest field sales effort into. That's a design criteria. And that should go into how do you do your transformation?"

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