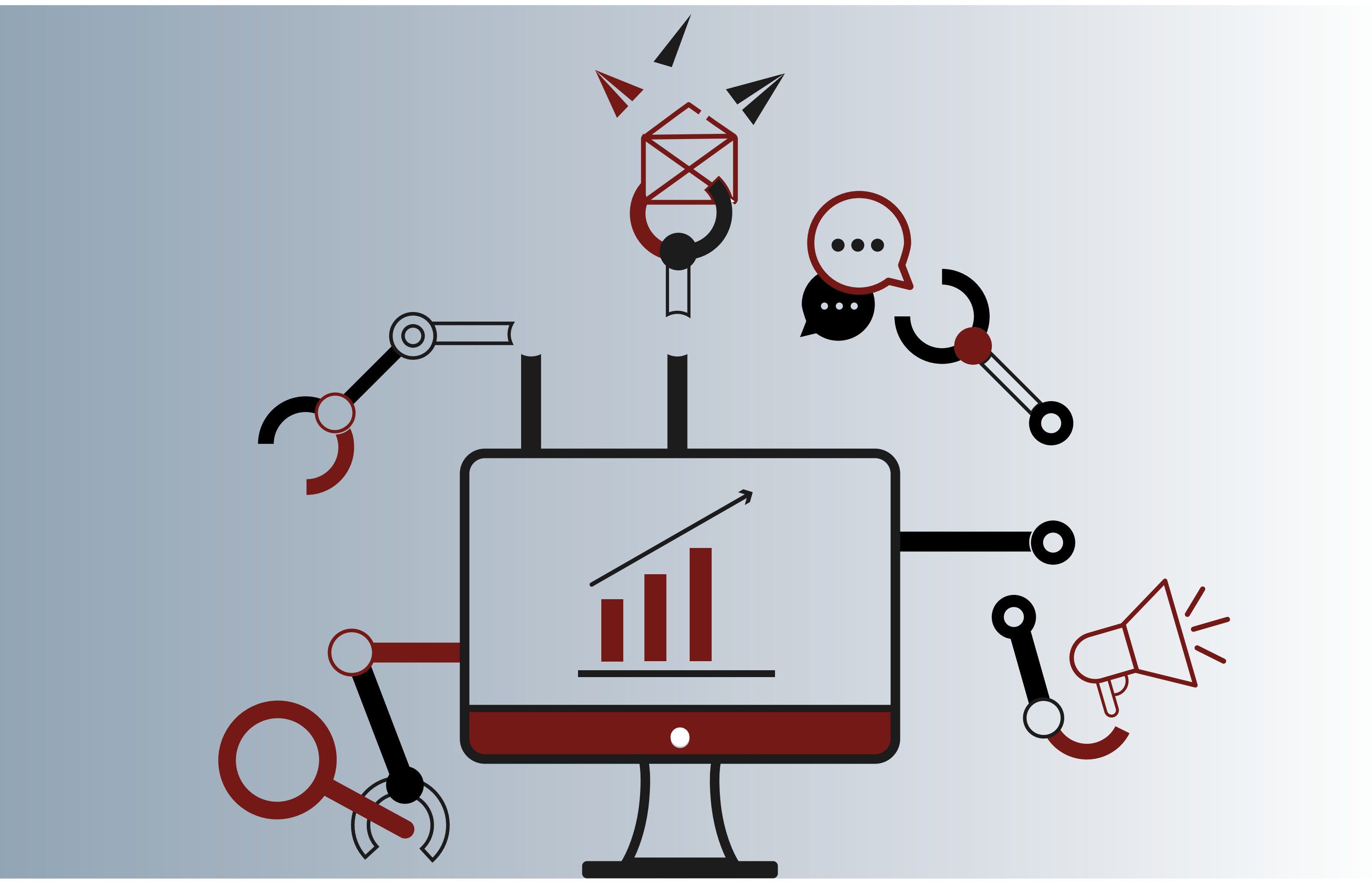
REDWOOD ADVISORS

Transform Your Commercial Organization's Go-To-Market Strategy:

A Comprehensive Guide to Staying Relevant

This report from Redwood Advisors lays out a three-step process for distributors to optimize their go-to-market model and sales & marketing organization — a process that can deliver substantial rewards.



mdm research

Introduction

Distributors have seen several substantial changes impact the industry the last few years, including the rise of eCommerce, powerful sales enablement technologies (e.g., CRM, mobile points of sale), changing customer priorities, and increasing customer comfort with remote and online sales engagement and customer support, among others. These changes have created a large opportunity for distributors to drive top and bottom-line growth by optimizing their go-to-market (GTM) strategy and approach, particularly their outside and inside sales forces. Many distributors have invested in an expensive sales force, but it's not optimized — and that puts senior management at risk.

In our experience, a redesigned and optimized sales & marketing organization can unlock up to 20% bottom-line growth over 2-3 years with most of the increase coming from increased top-line growth. Yet many distributors have not reviewed or refined their GTM model for years and sometimes even decades. This report lays out a straightforward, practical and effective process distributors can take to optimize their GTM model and sales & marketing organizations, with a particular focus on optimizing a distributor's inside and outside sales forces.

Based on our experience with this type of work, we recommend distributors follow a three-step process to optimize their GTM model and sales & marketing organization:

- **Phase 1:** Refresh and refine your customer segmentation to enable smart, effective GTM planning and execution.
- **Phase 2:** Assign your now well-defined customer segments to the optimal GTM channel (e.g., outside sales rep, inside sales rep, retail, online self-service, etc.) by segment.
- **Phase 3:** For customers assigned to the outside or inside sales channel, assign customers to a clear sales territory (for customers serviced by outside reps) and rep (the primarily owner for the account).

Successfully executing on this overall process can be challenging, but the rewards are often quite substantial and well worth the investment.

Phase 1: Refresh and Refine Your Customer Segmentation

In our experience, refreshing and refining your customer segmentation may be the most critical step in optimizing a distributor's go-to-market approach, yet it is often overlooked. In general, distributors cannot effectively redesign and optimize their GTM approach and sales organization without a thoughtful, quantitative and ideally rigorous update of their customer segmentation. This is the first key step in the overall process.

Each distributor should approach customer segmentation differently. A one-size-fits-all approach simply does not work well for most distributors. Consequently, we recommend distributors build out a customized segmentation approach that provides important, practical insights on how to best sell, serve, and support different types of customers. Important dimensions vary by distributor and often include product portfolio areas (i.e., buckets of similar products), consumables vs. durables bought (both overall sales and percent of sales by customer), additional services sold (if any), region, cost-to-serve, and margin profile to name some of the most common, customized categories.

While we do recommend building out a customized, insightful segmentation model, we generally find that four dimensions represent a powerful starting point for segmenting distributor customers: (1) customer size or value, (2) customer-level product mix, (3) customer purchasing pattern (i.e., how they buy whether online, in-person, etc.), and (4) estimated share of wallet. Not every distributor has these data points, and getting these data points often requires data gathering, analysis, and estimation. But this almost always proves to be a highly valuable exercise as these four dimensions powerfully highlight differences between customers — and how different types of customers can and should be best sold and serviced.

The first dimension is customer size or value. This is a critical dimension and one that's been used by distributors to segment customers for decades. You can measure customer size (or value) in terms of both revenue, gross margin, or net margin. In general, we find that gross margin (if available) often represents the best metric to use. Revenue only includes top-line contribution, but customers often vary significantly in their overall gross margin and cost-to-serve. This makes either gross or net margin most attractive. In our experience, net margin often can be hard to rigorously calculate at the account level and often does not change the answer much in comparison to gross margin, which is often easier to pull or calculate. We thus generally recommend using gross margin as a way to measure customer size or value.

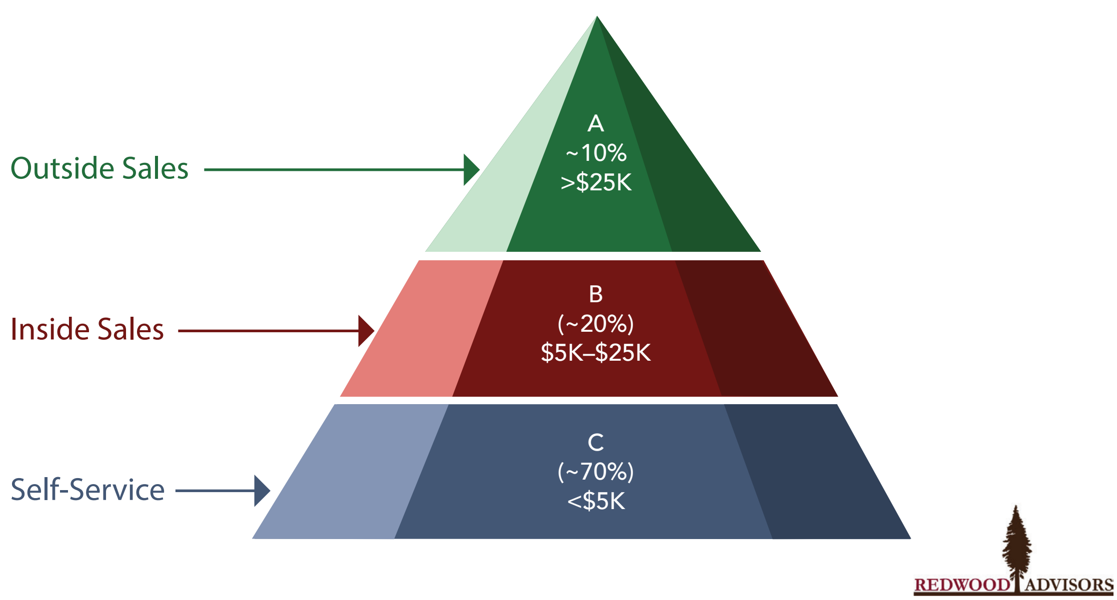
The next dimension is customer-level product mix. This gets at what specifically each customer is purchasing from you. In our experience, most distributors have several meaningfully different segments based just on what products or services different customers buy. For example, for distributors that sell both durables and consumables, one common difference we see between customers is that some largely buy consumables, others largely buy durables (or capital equipment), and others buy a good amount of both. Of course, most customers will buy some of both. The difference is what percent of sales come from each category. For example, some customers largely buy lower-cost, higher-volume products (e.g., tapes, blades, wheels, lines) while others spend significant amounts on larger, durable products or pieces of heavy equipment that can help improve output, productivity etc.

Differences in this dimension meaningfully impact customer segmentation and ultimately best sales channel to use for a given customer. Customers repeatedly purchasing consumables can often do so easily via ecommerce and inside sales channels whereas durable goods and capital equipment often require more high-touch sales engagement via outside sales reps or even technical experts. Understanding what your customers purchase gives you a strong sense of what type of sales engagement will work best (e.g., personalized, on-point digital marketing emails, an easy-to-use online ecommerce experience, an inside sales rep able to quickly recall and reproduce past orders, an outside sales rep able to share important tips and tricks on how to best use and install a large piece of capital equipment).

The third segmentation dimension is how each customer makes their purchases. In other words, you want to understand what sales channel(s) a customer usually uses to make purchases. Key sales channels include outside sales, inside sales, ecommerce, retail, and mobile delivery (i.e., products brought to the customer in vans or trucks) to name some of the more common. This segmentation often meaningfully informs later phases of work, with customers who largely purchase online or via retail locations often making better candidates for self-service or inside sales than outside sales.

Finally, if possible, we often see a significant amount of value in analyzing customers based on your estimated share of wallet. This is often the most difficult of the four dimensions to estimate, as few customers are willing to voluntarily share how much they spend in the product and service portfolio a distributor offers. But this does not mean this cannot be done. For purposes of this analysis, we recommend and often find that high-level estimates of share of wallet can work really well, particularly for those customers serviced by a sales rep today. With an estimated share of wallet in place, customers can be placed into one of three buckets (focused on how sales reps need to engage with this client): acquire, develop, and retain. Each of these buckets maps to what percent of the customers share of wallet you think you have. We recommend mapping customers with 0-10% share to “acquire,” 10%-50% to “develop,” and over 50% to “retain.” This often becomes a critical dimension to use in later phases.

Taken together, these four dimensions create a strong foundation for insightful and highly useful customer segmentation — and provides an in-depth view of your customers and how to best interact with them. All this then represents the critical input to an optimized GTM strategy and approach. Powerful customer segmentation is a key first step to unlocking a significant opportunity to drive top and bottom-line growth, particularly through best-in-class outside and inside sales forces. We highly recommend investing real time and resources on this step, as everything that comes later is based on the rigor and comprehensiveness of the segmentation work.



Phase 2: Dial In Your Account to Channel Mapping

One key mapping strategy is to figure out what customers should be "self-serve" and not mapped to the outside or inside sales channels.

With a rigorous customer segmentation methodology and output in hand, you can now thoughtfully and effectively map customers to your various sales channels. Similar to customer segmentation, a customized approach to this account-to-channel mapping will often generate meaningfully better and more optimal results. One-size-fits-all does not work well here. But a few key steps and principles are often helpful for most distributors.

One key mapping is figuring out what customers should be "self-serve" and not mapped to the outside or inside sales channels. In general (although certainly not always), customers below a certain size can be mapped to this category. The specific threshold may vary by distributor but can be determined based on comparing an overall cost-to-serve estimate and estimated gross margin with common thresholds being at $5K, $10K, and even $25K depending on what's being sold etc. Most customers below that threshold can then be mapped to the "self-serve" channel.

Conversely, customers above a certain threshold can be mapped to the outside sales channel as a thoughtful starting point. The specific threshold varies by distributor with some common thresholds including $10K, $20K, and $50K. In most cases, customers above that threshold for that distributor will be serviced by an outside sales rep.

Customers between the two thresholds — the self-serve and outside-sales thresholds — can then be serviced by your inside sales force. In general, these customers generate real margin and offer some upside to personalized sales engagement but not enough to warrant the expense of an outside sales rep.

All these thresholds can be thoughtfully set by taking into consideration the estimated impact of serving a customer with a given sales channel and cost-to-serve (or sell). For example, if the fully-loaded cost of an outside sales rep (OSR) is ~$200K and they can serve ~100-120 customers per OSR, you would want to assume that serving those customers with an OSR generates an additional ~$2K of gross margin per customer (minimum). If you pay an ISR ~$100K to serve ~400 customers, you would want to assume that ISR sales engagement generates ~$250 of additional gross margin per customer (minimum). Size often represents the most straightforward and important dimension to use when mapping accounts to channels and a good starting point.

Other dimensions can help meaningfully improve and enrich this customer to channel mapping. For example, distributors can make a mistake in only taking into consideration customer size (or value) and not taking into consideration customer purchasing pattern (i.e., how they buy whether online, in-person, etc.). For example, some customers may buy most or even almost all their purchases online. In some cases, although these customers may qualify for an outside sales rep engagement based on their size, these customers may actually prefer — and be better sold and serviced — either via an inside sales rep or even via self-serve, depending on those customers' preferences. One simple way to take this into consideration — although not always the best — is to simply exclude retail and ecommerce revenue (or gross margin) from

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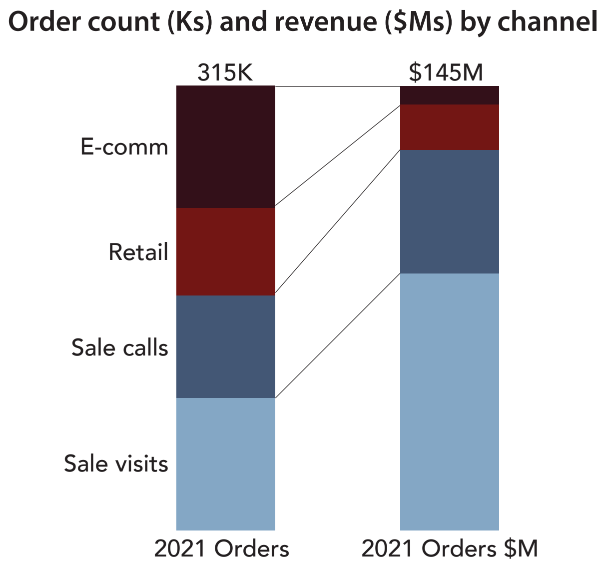

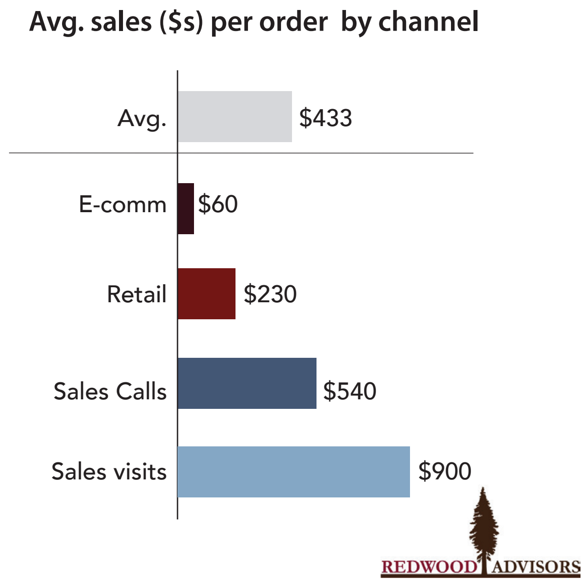

each customer's total revenue or gross margin when determining whether that customer hits a certain threshold or not. As a starting point, this makes some sense since sales earned via retail or eCommerce are not necessarily related to or driven by sales force engagement. Self-serve or inside sales engagement often works better for these types of customers, depending on their overall size, etc.

Another important cut we recommend is identifying what customers purchase products that may require or benefit from in-depth product knowledge, such as how to best install and use a large piece of capital equipment. Customers who purchase heavy equipment may be more likely to value the input or expertise of an outside sales rep or technical expert, especially one who can visit their actual location and help explain how the equipment can best meet their specific needs. On the other hand, customers who frequently purchase the same materials (particularly simple consumables) may have less need for an outside sales rep. In the case of relatively large customers who rely on check-ins or reminders to put in orders, inside sales reps can sometimes be the better fit.

Finally, we recommend enriching your account-to-channel mapping by taking into consideration whether a customer falls into the "acquire" or "develop" customer segments (based on share of wallet). Sometimes it makes sense to invest in sales engagement for customers that offer substantial growth opportunities, even if their current sales numbers are not very significant. It may make sense to dedicate some outside sales team resources on unlocking more sales from your highest-potential customers, through personalized interactions and engagement, instead of servicing high-share, lower-value customers who may be totally fine with inside sales support and your self-service options.

By making the most of your customer segmentation, you can effectively and intelligently map each of your customers and customer segments to the most optimal sales channel. In general, you want to focus your outside and inside sales force on customers that offer the highest return for this investment. This can be done effectively and thoughtfully with a well-crafted and designed customer segmentation model.

Phase 3: Clearly Map Your Customers to Individual Sales Reps

Once all customers have been assigned to a sales channel, the next and last major phase of work is mapping each customer to a specific sales rep, whether an outside or inside sales rep.

In many cases, this can become a complicated task. And here again, there is no one-size-fits-all approach for different distributors. But there are some sound steps and principles that can serve as a good starting point.

Outside Sales

To begin, you will want to pull all your self-serve customers out. These customers will not be served by your inside or outside sales but by your eCommerce, digital marketing and retail outlets.

From there, you will want to design potential outside sales territories based on the location of outside sales customers. Each potential sales territory needs to include enough customers to warrant having a full-time (or near full-time) outside sales representative. Depending on the geographic area covered and relative balance between geographically consolidated versus disparate customers, a typical outside sales representative can cover anywhere between ~80 to ~140 outside sales customers. The designed sales territory also needs to offer enough revenue and revenue upside to warrant assigning an outside sales rep.

Some outside sales customers may not fit in the geographic scope of a clearly defined outside sales territory. In other words, in some areas, there may not be enough customers clustered closely enough to warrant a single sales territory and outside sales rep. These situations tend to get complicated. In some cases, you can add some customers mapped to the inside sales channel to the potential territory to see if these added accounts help warrant outside sales coverage for the region. In other cases, it may just not make sense to service the area with a dedicated outside sales rep. In those cases, customers assigned to the outside sales channel based on size can be serviced by a proximate outside sales rep (who's been assigned a nearby territory) or by an inside sales representative.

In other situations, you may have a geographically sensible territory that does not include the typical number of customers. In those cases, you can identify the top inside sales customers (by revenue or potential) that fall within the territory and assign them to the designated OSR to take up the OSR's capacity. For example, if your potential territory includes ~60 outside sales customers and your OSR can service ~120 customers, you can pull up the top ~60 inside sales customers in the potential territory and assign them to the OSR for coverage.

To merit an OSR, the sales value of all the assigned customers (i.e., those originally assigned to the outside sales channel and the top inside sales customers) should exceed an agreed-upon sales target to justify the investment of an OSR. If the sales target is met, the territory should be assigned to an OSR with the top ~120 customers assigned

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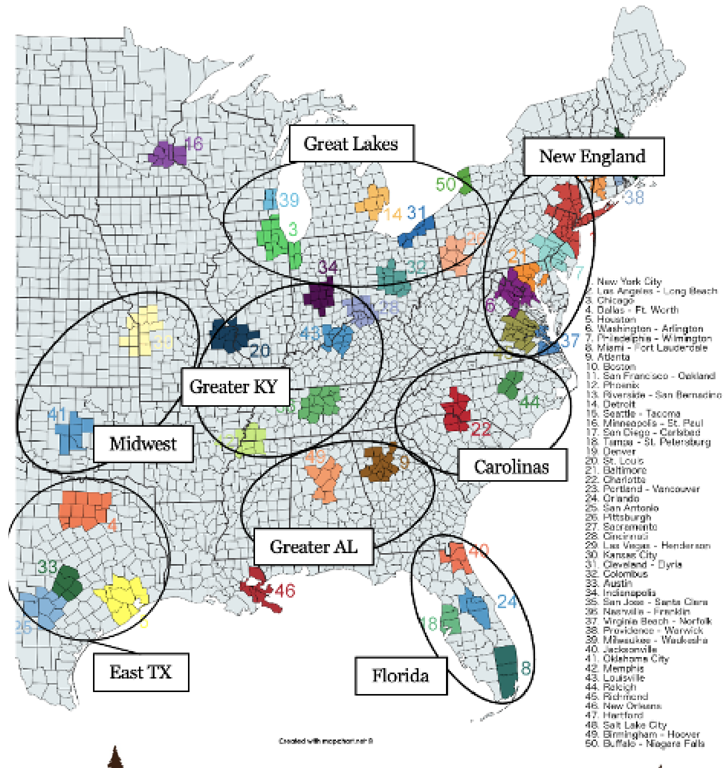
to them for coverage. If not, all customers within the potential territory should be covered by an OSR in an adjacent territory or inside sales.

After several iterations to fine-tune your geographic territories and assignments, you will have defined and laid out your future-state outside sales territories. From here, you can map your individual outside sales reps to individual territories. Ideally, your reps should be mapped based on their current sales territory or coverage, current customer base, and home location (to limit travel time and maximize the time available to spend with customers). Finally, reps with historically high performance should be prioritized for high-value territories. At the close of this exercise, you should have assigned each territory a well-chosen rep that can effectively service the customers in a given territory.



Inside Sales

After finalizing your outside sales mapping, you can focus on assigning your inside sales customers to inside sales reps. Similar to outside sales reps, inside sales reps should be assigned a target number of customers to serve (i.e., capacity). In our experience, ISRs generally can cover anywhere between 200 to 350 customers, depending on what's being sold, customer expectations, etc.

The best way to assign customers to individual inside sales reps will vary based on the distributor. In some cases, mapping customers based on geographic region makes the most sense, similar to outside sales reps. Although ISRs will not be conducting in-person visits, they may be more familiar with the culture of the region and the specific needs, expectations, and use cases of customers in that area. In other cases, it makes more sense to assign customers based on ISR effectiveness or seniority with larger, higher-potential customers going to more productive, effective ISRs. Customers can also be mapped to inside sales staff based on product knowledge or expertise with customers assigned to individual ISRs based on each ISR's knowledge base (e.g., durables, consumables, etc.) and the individual customer's buying pattern (e.g., percent spent on durables). For example, customers who frequently purchase a specific product line or type of product can be assigned to an inside sales rep with in-depth expertise of that product. This approach can be especially useful for distributors with lines of heavy machinery or specialized equipment.

Similar to OSRs, you will want to make sure that each ISR has enough customers to warrant the cost of that ISR. Here, no general rule applies as the threshold value can vary a lot based on the margin of each distributor etc. But as a rough rule, inside sales reps generally make sense if they service a book of business somewhere in the $1M-$2M+ range.

By the end of this exercise, your organization will have laid out best-practice outside sales territories and mapped individual customers (both inside and outside) to individual outside and inside sales reps. This type of thoughtful, comprehensive effort can help maximize the return on your sales force investment and help significantly accelerate top-line growth. In our experience, a well-designed and mapped salesforce supported with good technology and processes, can increase top-line growth anywhere between 5%-20% over the subsequent three years as sales staff unlock new opportunities and increase share of wallet with better, smarter coverage models.

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Conclusion

Many distributors miss out on a significant revenue growth opportunity by leaving an outdated and suboptimal customer segmentation and sales force coverage model in place for too long. This significant opportunity can be unlocked with a thoughtful process including high-quality customer segmentation, clear customer-to-channel mapping and refined sales coverage mapping for both your outside and inside sales team. An updated, customer-centered sales coverage approach can unlock significant revenue growth and help improve customer satisfaction and experience for your most valuable customers.

You can follow these three phases in order to transform your organization. Developing an in-depth customer segmentation model with key dimensions including customer size or value, customer-level product mix, purchasing pattern, and estimated share of wallet allows your team to capture key identifiers related to each customer. You can then map your customers to channels that best fit their purchasing patterns and needs. With a clear view of what channels each customer should be served by, you can map your sales team to their ideal customers to generate more sales.

To maintain your return on investment, your team should develop a clear process for reviewing sales performance and realigning territories every 3 to 5 years to keep things up-to-date and fine-tuned. While your organization should be cognisant of change management concerns, you should work to maintain a fully updated map of customers to the most relevant sales channel. Although this kind of analysis can be sensitive, it is a critical practice to maintain your optimized sales organization.

The end result of this transformative work is a future-state sales team equipped to unlock additional sales revenue with minimal incremental investment and costs. Your team will also have a well-defined and meaningful view of your customers including what sales channels best fit each one. Using our strategies for updating your GTM approach, you and your organization can build an optimized sales organization that best utilizes your team for the most impactful result.

We optimize mid-market distributors' GTM strategy and approach

Redwood Advisors (www.rwadvisors.com) has delivered over 75 projects over the last 10 years with a focus on growth strategy and commercial excellence for distributors, manufacturers, and other clients. In our experience, we've found that most distributors have invested in an expensive sales force; however, it's not optimized, and that puts senior management at risk. Founded by a former McKinsey & Company consultant, Redwood Advisors delivers top consulting firm quality to rightsize and redesign the outside and inside salesforces to perfectly align with customer needs and opportunities. Former clients include GranQuartz, Ares Private Equity, and McElroy Manufacturing among others.

Have questions, follow-ups, or want to connect? Reach John Nantz at john.a.nantz@rwadvisors.com

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