

INTERACTIVE SESSION: ORGANIZATIONS**Graybar Goes for Customer Analytics**

Graybar, a Fortune 500 corporation headquartered in St. Louis, Missouri, is one of the largest employee-owned companies in North America and a leader in the distribution of high-quality electrical, communications, and networking products. The company also provides related supply chain management and logistics services. With more than \$5.4 billion in revenue, Graybar procures, warehouses, and delivers approximately one million products from 4,100 manufacturers to 117,000 customers. It has 7400 employees and more than 240 North American distribution centers in the U.S., Canada, and Puerto Rico. Graybar is a wholesale distributor and does not sell to retail customers directly.

Despite many years of success, Graybar could do better. For instance, it was not following best practices for analyzing and understanding its customers. These practices were becoming essential for wholesale distributors as well as for retail companies. Traditionally, distributors have acted as middlemen in their supply chains, but they are starting to face pricing pressure from customers. The customers expect reduced lead times and better services, but at the same time, refuse to pay for the additional services. As a result, distributors' profit margins are being squeezed.

A study of the distributor pricing problem by researchers at Texas A&M University recommended that distributors such as Graybar embrace a strategy of customer stratification. Customer stratification measures how much business a customer does with a company (sales), the profitability of that customer in gross margins, how loyal the customer is to the company, and how costly that customer is to serve. Using these dimensions, the study identified four types of customers: core, opportunistic, marginal, and service drain. Core customers are profitable customers who transact in high volume on a regular basis. Opportunistic customers tend to buy infrequently when their regular supplier stocks out, so they are less profitable. Marginal customers buy infrequently in low sales volumes and require either low prices or high service levels, so that serving them may lose money. Service-drain customers are high-volume customers who consistently require higher levels of service while demanding low prices, and often have a high-volume of returns. A different strategy for salesforce deployment, pricing, marketing, and salesforce compensation is required to handle each of these customer segments.

Like many other firms in the industry, Graybar sales representatives had been focusing their attention

primarily on customers that spent the most money. Graybar's business is very transactional, processing 21,000 orders with 90,000 line items each day. About 97 percent of Graybar's 117,000 customers do less than \$25,000 worth of business annually. Graybar had been focusing primarily on the small percentage of customers with large accounts. That left most of its customer base to deal with. Graybar needed to find a way to determine which of these customers it should cultivate and which it should ignore.

The reps needed to be able to identify which customers required the most attention to determine whether they could be transformed from a drain on resources into more profitable customers. The company needed to find out if a geographic or product-line strategy for allocating customers to salespeople was appropriate because these approaches might give some sale reps a disproportionate share of either profitable or unprofitable customers. Graybar collected a great deal of customer data, but some pieces of data were missing, and it lacked the analytical tools to segment customers along the recommended lines.

In July 2011, Graybar's vice president of business development started a project to create a data-driven customer stratification model that would incorporate best practices and enhance profitability. He assembled a cross-functional team with members representing marketing, operations, finance, and information systems. Having team members come from field operations helped ensure that the project paid sufficient attention to field-level customer needs.

The team spent the following year analyzing best practices from industry research and tailoring them to Graybar's business. It identified the data fields from the company's existing ERP system that would be required for customer stratification and wrote queries to extract the data from the company's SAP NetWeaver data warehouse. The specific factors that were most important for Graybar's customer analysis, such as revenue, customer buying power, and product line penetration, had to be assigned weightings based on its business needs. Graybar was already maintaining 95 percent of the customer data it needed.

Initially, Graybar's customer stratification application was based on a spreadsheet with many rows of data, assigning letter grades for final results and recommendations. Graybar's project team wanted the information to be delivered in a more visual, understandable format and built a dashboard using SAP BusinessObjects Dashboards software. Graybar further enhanced the application by partnering with

SAP in the development of a new analytics software product called SAP Customer Value Intelligence. This software is part of the SAP Customer Analytics suite and it provides recommendations on improving customer value. It uses real-time customer revenue, margins, and behavior to stratify customers into each of the four categories described earlier. It can show the category to which each individual Graybar customer belongs and supply information about the customer's transactions with the company to explain why the customer received that classification. If a customer is identified as an opportunistic customer, the dashboard might display numbers showing the customer does place orders but does not have many orders and may have problem with the consistency of those orders. A service drain customer might have a profile showing orders but a large number of returns. The dashboard can also display for each sales rep a visual "map" showing the distribution of all of his or her

customers—how many are core, opportunistic, marginal, or service drains to help that rep allocate his or her time and resources.

SAP Customer Value Intelligence is based on HANA, SAP's in-memory computing platform, which dramatically speeds up the process of analyzing large data sets (see Chapter 6). When Graybar salespeople were given customer stratification data during the testing phase of the project, almost all of them wanted to quickly stratify customers in their specific geographic markets and do other analyses in real time. SAP Hana made it possible for Graybar to do this work using high volumes of transactional data and to handle customer data in much greater detail than before.

Sources: "Strategic Customer Stratification at Graybar: Powered by SAP HANA," www.sap.com, accessed March 11, 2013; Graybar, "Graybar Opening Branches in Three Additional Locations," March 25, 2013, www.supplychain-brain.com; www.graybar.com, accessed March 12, 2013; and David Hannon, "Graybar Sharpens Its Focus on Profitability," *SAPInsiderProfiles*, October-December 2012.

CASE STUDY QUESTIONS

1. What was the problem at Graybar described in this case? How did this problem affect Graybar's business performance?
2. What people, organization, and technology issues had to be addressed by Graybar to develop a customer analytics solution?
3. How did analytical CRM change the way Graybar ran its business? Compare the way Graybar handled its customer relationships before and after it implemented analytical CRM.
4. Give examples of three decisions that were improved by Graybar's new customer analytics system.

BUSINESS VALUE OF CUSTOMER RELATIONSHIP MANAGEMENT SYSTEMS

Companies with effective customer relationship management systems realize many benefits, including increased customer satisfaction, reduced direct-marketing costs, more effective marketing, and lower costs for customer acquisition and retention. Information from CRM systems increases sales revenue by identifying the most profitable customers and segments for focused marketing and cross-selling.

Customer churn is reduced as sales, service, and marketing better respond to customer needs. The **churn rate** measures the number of customers who stop using or purchasing products or services from a company. It is an important indicator of the growth or decline of a firm's customer base.

9.4 Enterprise Applications: New Opportunities and Challenges

Many firms have implemented enterprise systems and systems for supply chain and customer relationship management because they are such powerful instruments for achieving operational excellence and enhancing decision making. But precisely because they are so powerful in changing the way the organization works, they are challenging to implement.