How Great Distributors Use Marketing to Dominate

By Ian Heller

David Packard, Co-Founder of Hewlett Packard, once said, "Marketing is too important to be left to the marketing department." That may sound pejorative, but we believe it shows that Packard viewed marketing as so important that the entire company must be involved in making it successful – not just one department. Marketing can play a key role in success because it has the power to change the way customers view and interact with your company.

Most senior executives we interact with believe that good marketing can help their businesses grow significantly and generate more profits, but if that's true, why do distributors spend so little on it?

In this whitepaper, we will explore:

- The reasons businesses hesitate to invest in marketing
- Why B2B marketing is vital to distributor success
- How to effectively measure marketing efforts
- Steps to improving your marketing strategy
- Why you should include digital capabilities as part of your marketing strategy

The Trouble With Distributor Marketing

When you talk to marketers, they often say that it is difficult to get a budget approved in part because it's harder to link actual results to marketing than – for example – to show revenue growth from your sales team.

There are three key reasons why distributors invest too little in their marketing departments:

- Every marketing investment is speculative and competes with the perfectly good alternative of not spending the money. That's a sure bet that will turn the marketing investment into bottom-line profit instead. Marketers have to make it a great bet that if they spend $100,000, they'll get more than that back in profit.
- Marketers often have poor business cases or track records to convince decision-makers that programs are worth betting on.

- Marketing goals and measurements often don't provide clear and credible proof of results, so even if you believe you've generated a great return, other people in the company might not believe it.

Many marketers try to measure their effectiveness based on promotions, but that comes with its own set of problems. Each time you do a promotion, everybody in the company will try to take credit for it. The sales rep will say, "It was my account that did the purchasing"; the ecommerce department will say, "Well, I emailed the promo and used SEO to promote it"; and the CFO will say, "We would've sold half of that stuff anyway and at a higher margin." So the net result is that even if your marketing team successfully promotes a product, it's difficult to prove to the company that the money spent was worth the return.

Often, the problem isn't that marketing isn't doing a good job but that we are measuring the wrong results.

Is Your Marketing Effective and How Do You Know?

Take this quick assessment: Do you know how many customers you gained and lost last year? Do you regularly measure that number? Do you have specific goals for how many you will gain and retain this year? Is there an individual in your company responsible for hitting these goals?

The core question distributors must consider is: Who owns your company's customer lifecycle? Who has their eye on the ball when it comes to the acquisition, retention and building of wallet share? If you look at a lifecycle report and see that the number of customers is dropping, and no one knows why or isn't doing anything about it, there's a problem. If you don't have that report, you have a more fundamental problem.

Objectives-Based Marketing

Marketing can grow sales but doesn't own specific accounts like salespeople do and it needs to be measured and managed differently – that's why we need to look at factors outside of individual account sales to gauge marketing's performance.

Objectives-based marketing is the idea that your marketing department should be in charge of setting goals and driving progress toward acquiring new customers, driving more frequent purchases,

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reducing customer defection and growing average transaction size. Marketing's goal should not be to directly drive sales dollars but to change customer behaviors in ways that generate more sales and profits. This gives you the ability to set financial goals for marketing but they're tied to something your marketers can directly influence – customer behaviors – instead of something they drive indirectly – sales and profits.

Note: As you redefine how you measure marketing success, it is crucial to define what you consider "new" and "lost" customers. For instance, I may define a "lost" customer as someone who hasn't purchased from me in the past 12 months. Of course, you may have a different idea of what you would consider a "lost" customer, but for the sake of measuring marketing success, it's vital to pick a definition and stick to it.

As you plan marketing strategies based on objectives, start by:

- Evaluating your company's transaction history
- Developing pro-formas to see how changing each variable affects your bottom line
- Building programs that change customers' behaviors
- Enrolling the company in your efforts

It's not marketing's job to make individual sales – it's their job to affect customer behavior in a positive way. For example, imagine that a company has generated $31.6 million in sales over the trailing 12 months. Say they had 100 new customers with an average of 15 transactions and retained 400 customers with an average of 30 transactions.

Baseline year or trailing 12 months (TTM)

Baseline Year			
	New	**Retained**	**Results from New/Retained**
# Accounts	100	400	500
Avg # Trans	15	30	27
Tot # Trans	1500	12000	13500
AOV	$1,100	$2,500	$2,344
FY Sales	$1,650,000	$30,000,000	**$31,650,000**
GM%	33%	31%	**31.1%**
GM$	$544,500	$9,300,000	**$9,844,500**

Now, let's say 75 customers that bought the previous year (trailing months 13-24) didn't buy last year (trailing months 1-12). We'll consider them "lost" customers. Those 75 customers, had they been active, would have contributed about $600,000 in sales and $186,000 in gross margin.

This company – like yours – is adding and losing customers. In this model, they lost 75 but gained 100, so a growth rate of 6% is built in. In other words, if this company operated the same way over the next 12 months, it would grow 6% in sales and gross margin dollars. The marketing department is responsible for improving these numbers. What should they do? Let's say they decide to put a more aggressive prospecting program in place and enhance their new-customer onboarding process to bring the number of new customers up from 100 to 120. Then they used good marketing offers and communication techniques to encourage them to buy 17 times a year instead of just 15. They may also try to raise the average order value and offer special discounts to new customers. Finally, let's assume they implement a more robust retention program to reduce the lost-customer count from 75 to 60.

Baseline year or trailing 12 months (TTM)

Baseline Year	New	Retained	Results from New/Retained	Lost
# Accounts	~~100~~ **120**	400	500	~~75~~ **60**
Avg # Trans	~~15~~ **17**	~~30~~ **31**	27	10
Tot # Trans	1500	12000	13500	750
AOV	~~$1,100~~ **$1,150**	~~$2,500~~ **$2,450**	$2,344	$800
FY Sales	$1,650,000	$30,000,000	**$31,650,000**	$600,000
GM%	~~33%~~ **32%**	31%	**31.1%**	31%
GM$	$544,500	$9,300,000	**$9,844,500**	$186,000

Given that most distributors have no formal prospecting and onboarding programs and aren't even paying attention to lost customers – meaning they have no aggressive retention – processes, these aren't difficult targets to hit in year one.

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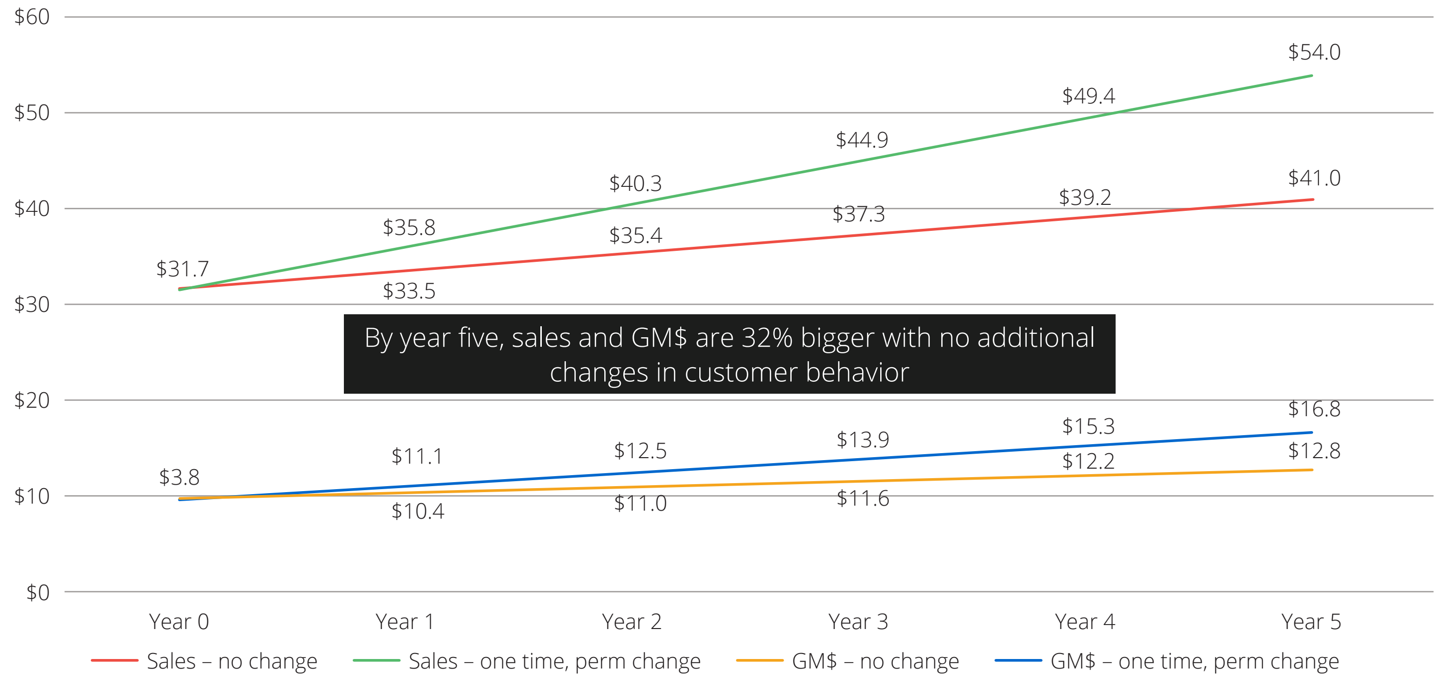
If the company's marketing department successfully implemented those small changes, the business would more than double its gross margin dollar growth the following year. Instead of growing 6%, it would grow 13%, which is a couple of million in sales and $684,000 in gross margin dollars. Now, let's assume that the company makes these one-time changes and never improves – it just maintains them over five years – they will have grown 32% bigger in both sales and gross margin dollars.

Five-year growth in sales / gross margin dollars after a one-time, permanent change in customer behavior



Now imagine the growth potential of a company that is continually improving. By putting these minor changes in place and pursuing previously overlooked objectives, your marketing department can achieve similar results.

How to Get Started

To create a successful marketing department, you need cross-functional support from every division – sales, finance, product management, etc. Most company numbers don't exist unless the CFO says they do, so having a finance representative work with you will help you build credibility and a better business case.

You will also need to set annual marketing objectives as part of your budget-planning process. These objectives should be quantifiable and related to customer-lifecycle performance, and progress should be reviewed monthly with adjustments as needed to improve performance. During this process, you will need to be nimble and open to learning new things.

As you refine your new marketing strategy, you will also need to:

- Build a marketing database of all prospects, customers and lost customers
- Create a contact strategy for customers and prospects with outside sales contacts, outbound telephone calls and email
- Implement trigger-marketing efforts to encourage customers to buy items related to what they've purchased previously – or what you think they should be buying based on what you know about them
- Refine your onboarding programs
- Set alarms to alert you of pending defections

Again, you need multiple channels involved in your marketing efforts – this is about enrolling the entire company, not just the marketing department. Focus on communicating with customers across various platforms, including outside sales, telesales, inside sales, emails, direct mail, branch events and other avenues. Expand your prospecting campaigns with data from your customer database and by using "lookalike" analytics to help you identify leads that behave similarly to your best customers.

When connecting with customers and prospects, remember that your audience's tolerance for communication frequency will be higher when they are interested in what you are saying. The Golden Rule of distributor marketing is the more often you put relevant offers in front of targeted customers, the more frequently they will buy from you.

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Communication Frequency Examples	
Communication Type	**Frequency**
Email	Weekly
OSR call	2x Month
Telesales call	2x Month
Promo catalog	Monthly
New product flyer	Quarterly

As you build a marketing budget, remember that it is crucial to be frugal and only spend what you need. Think like a general manager and keep your company's bottom line in mind. You will have more leeway with future projects if you can earn a reputation as a careful steward of company money. If you don't have a working knowledge of finance, consider taking a class or asking for training. Learn to set quantitative goals around financial returns and customer lifecycles to measure the results from your marketing programs.

Using Your Website to Achieve Marketing Objectives

Your website can play a definitive role in your marketing strategy – if you know how to use it. Most B2B customers won't buy from your site, even if they spend considerable time shopping on it.

Two barriers to buying online in B2B that don't exist in retail include:

- Most B2B buyers cannot check out via your shopping cart, even if they want to. Customers have their own purchasing systems they must use, which means they have to fill out POs – which they may call into a sales rep or send in via email, EDI, eprocurement, etc. They may spend all day shopping on your website, browsing through products and building an order, but for the most part, they won't make large purchases through your shopping cart.
- Second, websites are often the most expensive channel. Because there are so many discounts through other channels, most buyers will call or email a sales rep to negotiate a lower price.

That customers aren't buying through your shopping cart doesn't make your site any less valuable; you just may not be measuring its effectiveness correctly. Distributor websites provide value by offering customers a way to shop and learn about products before buying through other channels.

Think of this process in terms of basketball. Great point guards in the NBA are rated on a statistic called “point creation.” They are credited with creating points not only for scoring a basket directly but by passing to the player who does score the basket. That is often the role of your website; sometimes, it will score directly through the shopping cart, and sometimes it will get an assist by generating a transaction that comes through another channel.

Chris Paul		
Points	18.3	Assists
Assists x 2	18.8	9.4
Total	**37.10**	

Steph Curry		
Points	24.2	Assists
Assists x 2	13	6.5
Total	**37.20**	

Career Diff	**.10**	**Per Game**

This graphic shows the “point creation” of two great NBA point guards. One shoots a lot of baskets and the other passes frequently. But over the course of many years, their “point creation” results are almost identical.

For most distributors, the website is more like Chris Paul than Steph Curry. It “passes” a lot of orders off to be “scored” through other channels, like email, phone calls, EDI, etc.

To effectively support your marketing and sales goals, your ecommerce site should be simple and easy to shop on and offer great product data and information, online training, self-service account information, online chat options (with a real person), compelling descriptions of your value-added services and a “quote cart.” A quote cart is an especially valuable tool since it allows customers to compile a list of products and export them to a PO they can use to make a purchase.

Once you have everything in place, how can you measure ecommerce effectiveness? To gain a complete picture of how well your website is performing, you will need to take several factors into account, including:

- Shopping-cart profits
- All digital channel profits (EDI, email orders, e-procurement etc.)

- Orders generated by the website but placed via other channels
- Omnichannel impact
- Customer lifecycle, including improvements in new customers, retention and wallet share

The Full Numerator:

+ Shopping-cart profits

+ All digital-channel profits (EDI, email orders, eprocurement, etc.)

+ Orders generated by the website but placed via other channels

+ Omnichannel impact: Accounts engage from multiple channels are bigger

+ Customer lifecycle: Improvements in new customers, retention, wallet share

Denominator: **+ eCommerce Capital Costs**

+ eCommerce Expenses (Labor, OpEx, etc.)

To measure sales generated by your website but placed by other channels, try this: Take 30 (or 50 or 100) orders per month that were not placed through your website and call the buyers. Make it a customer service call to ask them about their experience, but also ask them whether or not they used your website at some point in their shopping journey. If they say "Yes," give the website attribution for the order. This enables you to improve the customer relationship while measuring the real ROI of your website investment.

Putting It All Together

Peter Drucker once said, "Marketing is not only much broader than selling, it is not a specialized activity at all. It encompasses the entire business. It is the whole business seen from the customer's point of view."

Your whole company should be obsessed with gathering and holding on to customers. This means improving your marketing strategy and enhancing the customer journey across all channels and touchpoints. The purpose of marketing is to acquire, retain and grow customers to drive sales, profits and enterprise value and you must enroll the entire company in this mission to drive the best results.

To set your marketing objectives and create a successful marketing effort, you will need to:

- Gather up a cross-functional team.
  - Include marketing, sales, finance, inventory, etc.
- Develop your pro-forma model.
  - Run/discuss scenarios for customer acquisition, retention and wallet share.
- Choose a system that meets your goals (and is achievable).
- Build a plan and estimate the costs needed to achieve it.
- Track performance toward your goal throughout the year.
  - Adjust your budget up or down depending on the results.
- Enroll the whole company in achieving marketing objectives.

Marketing should take ownership of customer acquisition, growth and retention. Fortunately, all of these activities can be measured and the financial results derived from them for planning and measurement. This will provide real numbers marketing can use to request budgets, measure and report their performance and demonstrate how they are helping the company reach its goals.

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Ian Heller is Founder & Senior Partner at Distribution Strategy Group, and has more than 30 years of experience executing marketing and e-business strategy in the wholesale distribution industry. He has written and spoken extensively on the impact of digital disruption on distributors.

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Distribution Strategy Group's thought leadership, research and consulting services are led by a team with decades of experience as senior operators in the distribution industry. They have since worked with more than 70 distribution companies to build a solid foundation to win in today's changing market.

Distribution Strategy Group offers strategic guidance for distributors in the face of disruption, including:

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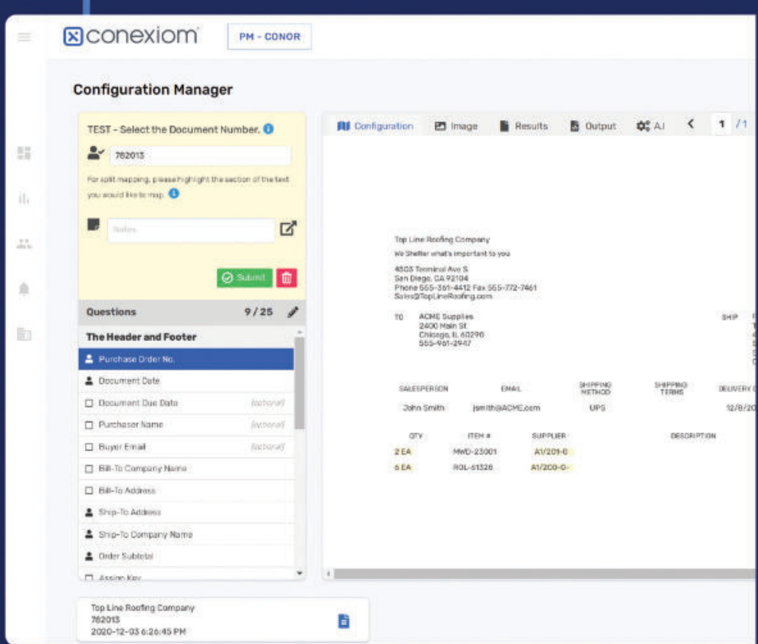

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