



the **future** of distribution

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**Bill Sexton**

## Biography

Bill is the VP of Customer Experience / CRM at Global Industrial leading a team of 220+ associates managing all inbound sales and customer service channels, creating a more personalized and connected customer centric approach, aligning strategies across all business organizations to Accelerate the Customer Experience. Leveraging his hands-on operational background leading all aspects of business operations, sales, marketing and service, Bill helps globally known brands achieve billion-dollar sales, strong market presence and solid brand identity.

**Bill led customer segmentation strategy and design for Motorola Solutions, Zebra Technologies, Samsung B2B, and Global Industrial.**



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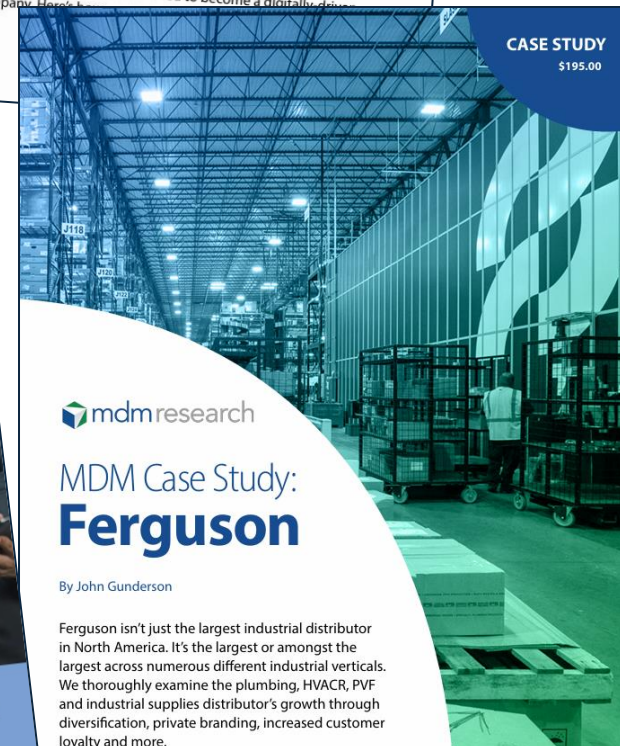


**John Gunderson**

## Channel Biography

John has held various roles throughout his career leading pricing, category management, sales, marketing, digital, for leading distributors: **Crescent Electric Supply, White Cap Construction Supply, HD Supply Power Solutions, Anixter/WESCO, EIS-INC/Motion Industries, and Modern Distribution Management.**

John is one of the best-read authors and speakers in the channel working with publications and Associations including Industrial Supply Trends, Modern Distribution Management, NAW, NAHAD, NAED, Affiliated Distributors, ISA, & Supply Chain Now. John is VP with CMG Trends which publishes Electrical Trends, HVACR Trends, and Industrial Supply Trends.



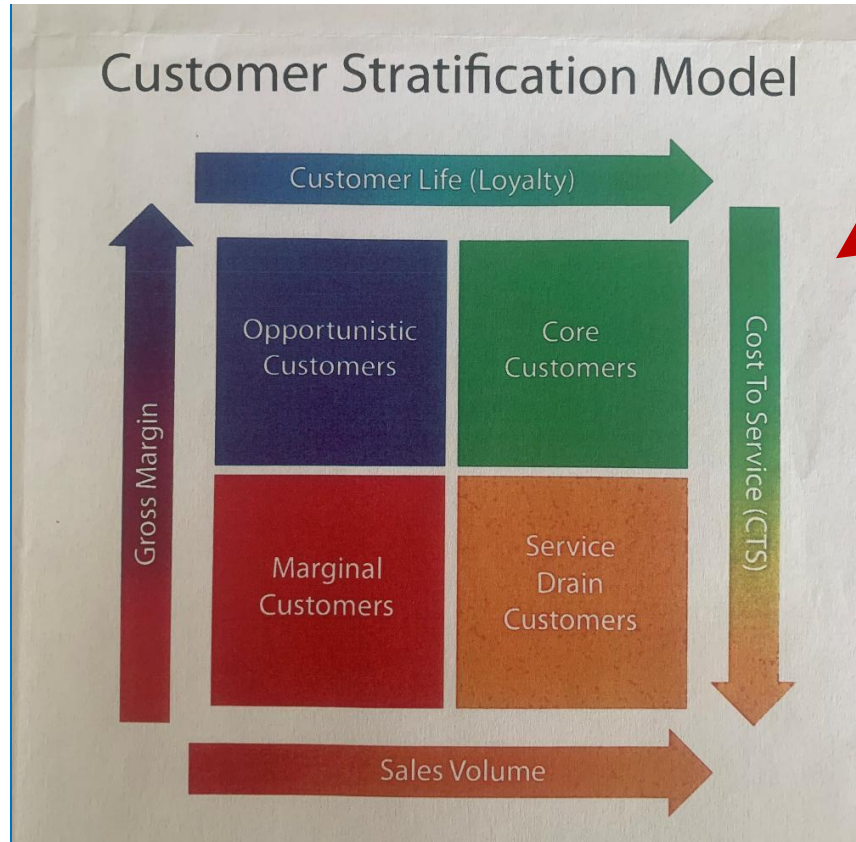


# The Power of Precise Customer Segmentation

September 18-20, 2023 | Denver, CO

September 18-20, 2023 | Denver, CO

# Customer Segmentation – Building a Model with Depth



Texas A&M Stratification Model – Authors: Barry Lawrence, Senthil Gunasekaran, and Pradip Krishnadevarajan

The B2B Distribution Customer Segmentation used by Distribution Channel Partners for decades.

Moving customers on the four blocker UP and left to right drives above Market Growth.

- **Customer Potential is next level data** – many of your opportunistic customers are likely Core Customers for competitors
- Working together (Distributors and Manufacturers) with SPAs, CSPs, NPIs, Training, Improved Product Mix, Services and more can Move Service Drain customers to Core Customers
- **Core Customer Focus** – With services and relationships that have “Barriers to Exit and Barriers to Entry” create market share gain.

**“2025 is a year to take market share and build a strong process in place to never give it back”**



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# B2B Industrial/Construction Customer Sales and GM\$ Waterfall Example

|                    | %<br>Cust | % of<br>Sales\$ | % of<br>GM\$ |
|--------------------|-----------|-----------------|--------------|
| <b>Under \$50K</b> | 89.5%     | 12.2%           | 17.2%        |
| <b>50K-100K</b>    | 4.0%      | 7.6%            | 9.4%         |
| <b>100K-300K</b>   | 4.0%      | 18.1%           | 20.2%        |
| <b>300K-500K</b>   | 1.0%      | 10.0%           | 9.5%         |
| <b>500K-750K</b>   | 0.5%      | 8.3%            | 7.2%         |
| <b>750K - 1m</b>   | 0.3%      | 5.7%            | 4.8%         |
| <b>1m - 3m</b>     | 0.6%      | 28.4%           | 23.9%        |
| <b>&gt;3m</b>      | 0.1%      | 9.7%            | 7.8%         |
| <b>TOTAL</b>       |           |                 |              |

## Smaller Accounts = Limited Opportunity

The majority of small accounts are unassigned to direct sales teams. The House Accounts have some opportunity for most distributors (as some are Assigned Accounts for other distributors).

## 88% of Sales - 10.5% of customers

The majority of the top 10% of accounts are assigned to Account Managers and their team to call on, serve and grow their business.

## 83% of Gross Margin \$ - 10.5% customers

Larger Customers have more competitive pricing and lower gross margins.

**Top 10% Accounts on average have 30-70% of their total available spend** with the distributor shown in this example.

These high-share customers total available spend (what the account spends with other distributors ) varies by account, location, and distributor.



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**Customer Segmentation Success  
Stories that Build Barriers to Entry  
and Exit in the channel**

# Fastenal Customer Segmentation Analysis

## 87% of Fastenal Sales from 10% total customers

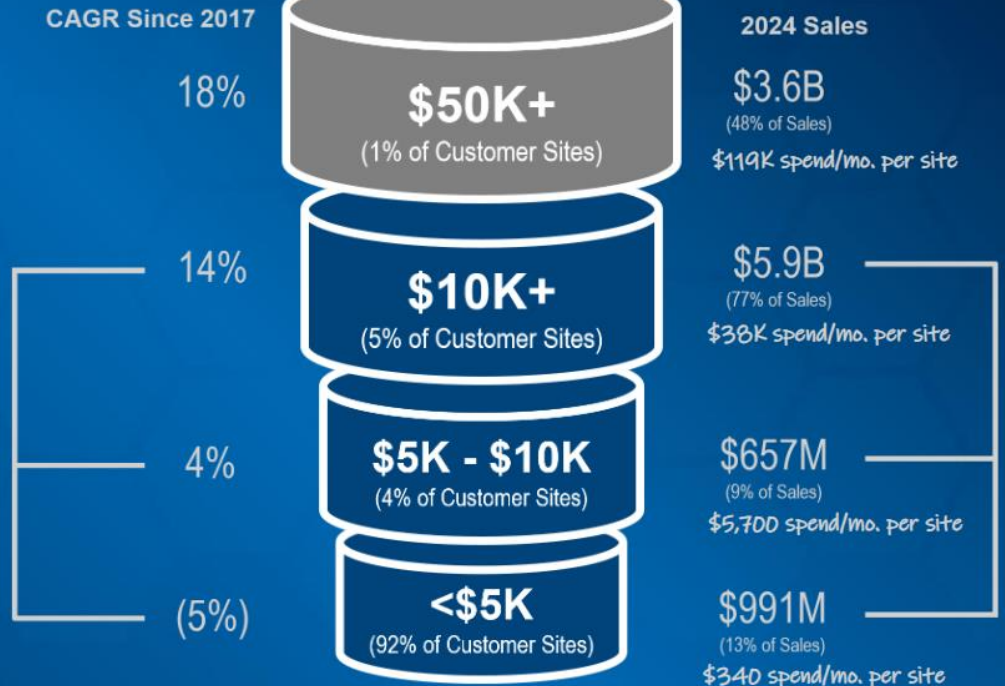
"We closed 40% of our locations and lost 43% of our account base over the years"  
Dan Florness Fastenal CEO

Sales Volume grew 2X+, GM% decreased and profitability is at record levels

"Must Have" Accounts over \$10,000+ in monthly sales are driving growth

- **Gap Analysis** - What are they buying elsewhere that they can buy from me?
- **Understand and likely have Potential Sales available by Customer**
- Investing in Customers that they can gain share with – Onsite, Vending, Sales Specialists, and Sales focus

## CUSTOMER SITE BUCKET PERFORMANCE



\* Sales that are not tied to a specific site or in-market location are excluded from the above. Sales represented above exclude certain service fees, cash sales, direct product sales, customer rebates, etc.

\*\* Customer Sites are an average of the number of customer sites calculated each month.

\*\*\* \$50K+ Customer Sites are presented separately as a representation of Onsite-like customers and are also a subset of the \$10K+ bucket.

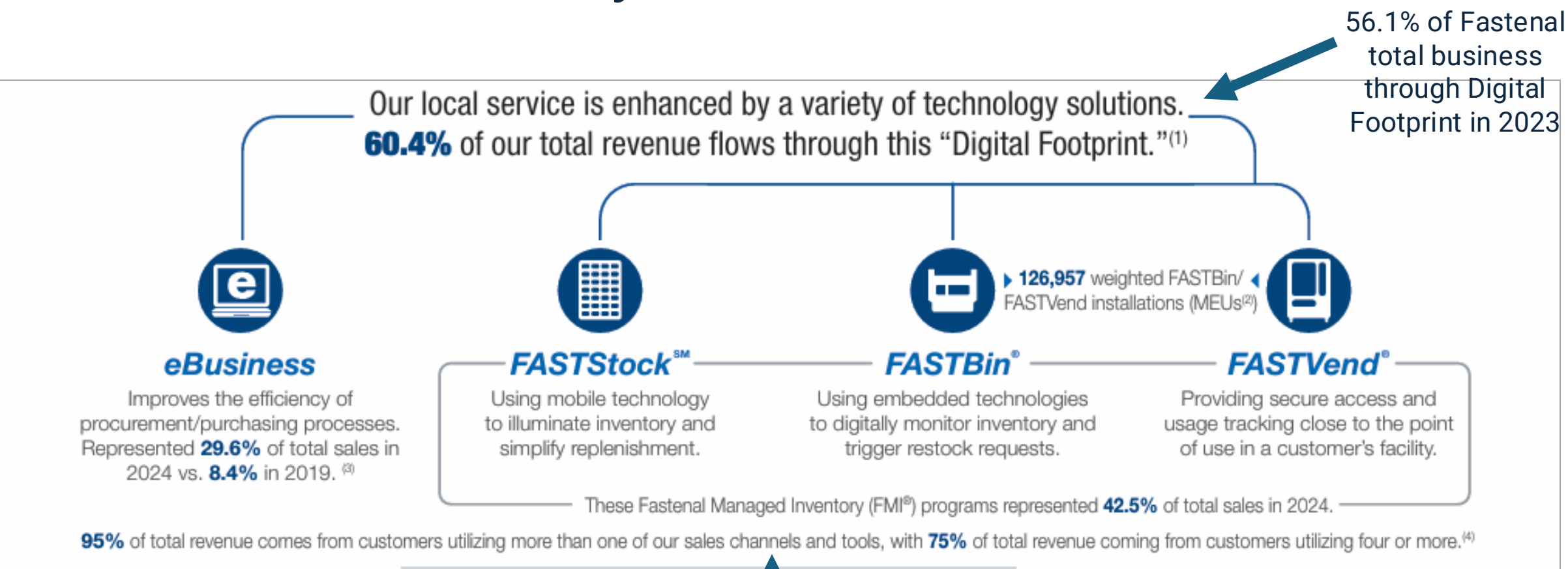


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\*Fastenal Investor Day March 13, 2025 – Dan Florness CEO

# Fastenal Barriers to Entry & Barriers to Exit



**95%** of total revenue comes from customers utilizing more than one of our sales channels and tools, with **75%** of total revenue coming from customers utilizing four or more.<sup>(4)</sup>



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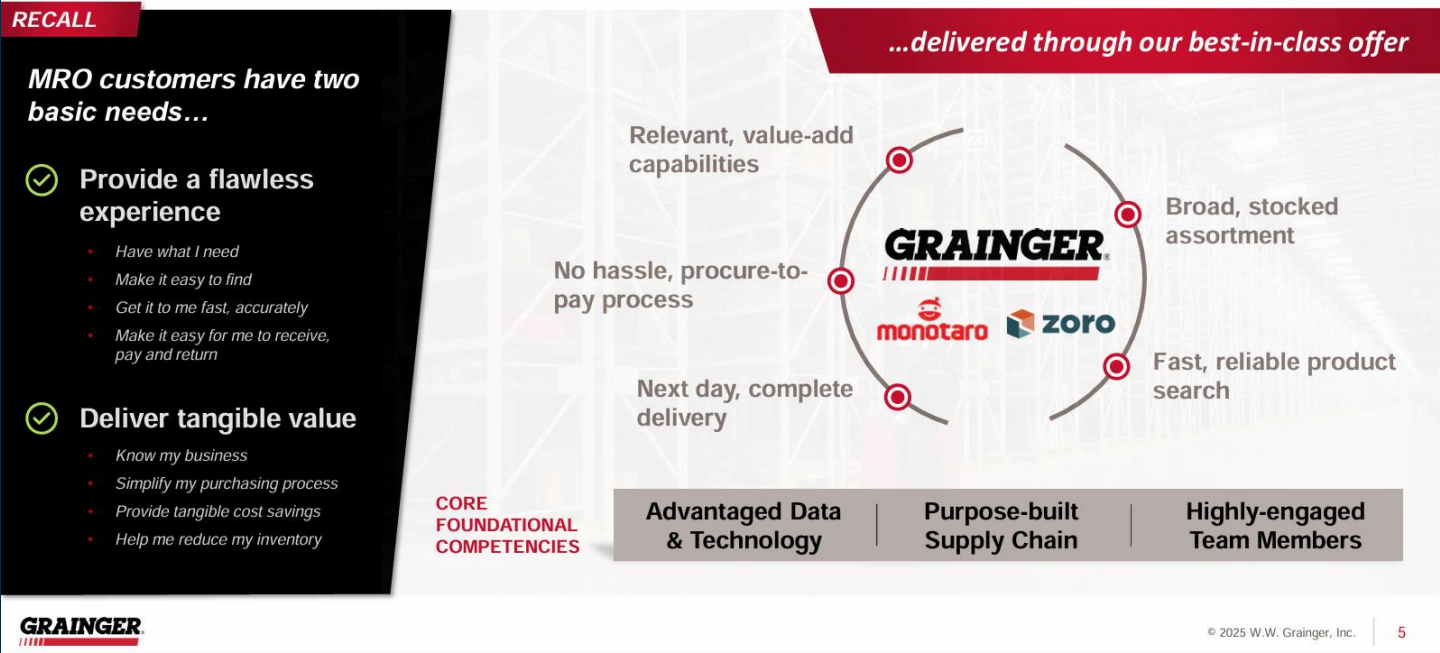
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\*2024 Fastenal Annual Report



# Grainger - Barriers to Entry & Barriers to Exit

Investing in foundational competencies to advance best-in-class MRO offering



We also propelling AI / ML opportunities

New technology driving opportunity to...



- In-flight initiatives**
- ✓ Search optimization
  - ✓ Product recommendations
  - ✓ Fraud detection
  - ✓ KeepStock install tool
  - ✓ Inventory optimization model
  - ✓ Seller insights platform
  - ✓ CSC digital assistant

**... and more to come**

*\*2024 Grainger Annual Report*



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# MSC Industrial - Barriers to Entry & Barriers to Exit


MSC Executive Vice President and Chief Financial Officer Kristen Actis-Grande MSC's business  
**"Used to be primarily spot-buy, but now 60% of our business is planned spend."**


IMPROVING EXECUTIVE  
MARKET SOFTNESS

Fiscal 1Q'25  
Highlights

(2.1)  
AVERAGE  
SALES

Reenergize the  
Core Customer

Web  
Enhancements

Drive  
Awareness

- Making **progress on improvements to the experience** including search and product display functions
- Encouraged by improvement in leading indicators and net promoter scores
- On track for web enhancements to **be launched in fiscal 2Q**

- Enhanced **marketing efforts primed** for 2Q'25
- **Campaign elements include** digital and search marketing, printed materials, and personal outreach

| Strategic Priorities   | 1Q'25 Progress   |
|--|--|
|  <b>Maintain Solutions Momentum</b>   | <ul style="list-style-type: none"><li>• 369 <b>In-Plant programs</b> at 1Q'25 end <b>+29% YoY</b></li><li>• 27,747 installed <b>vending units</b> at 1Q'25 end <b>+10% YoY</b></li></ul>   |
| <div>Reenergize the<br/>Core Customer</div> <div> <b>Web Enhancements</b></div> | <ul style="list-style-type: none"><li>• Making <b>progress on improvements to the experience</b> including search and product display functions</li><li>• Encouraged by improvement in leading indicators and net promoter scores</li><li>• On track for web enhancements to <b>be launched in fiscal 2Q</b></li></ul>                 |
|  <b>Drive Awareness</b>   | <ul style="list-style-type: none"><li>• Enhanced <b>marketing efforts primed</b> for 2Q'25</li><li>• <b>Campaign elements include</b> digital and search marketing, printed materials, and personal outreach</li></ul>   |
|  <b>Optimize Cost to Serve</b>  | <ul style="list-style-type: none"><li>• Progress on <b>portfolio of opportunities</b> identified in network study remaining on track</li><li>• Efforts to <b>unlock rep productivity</b> and <b>addressable spend</b> for Public Sector and National Accounts complete and expected to be completed by 3Q for Core Customers</li></ul> |



\* Represents a non-GAAP financial measure. See appendix for non-GAAP reconciliations

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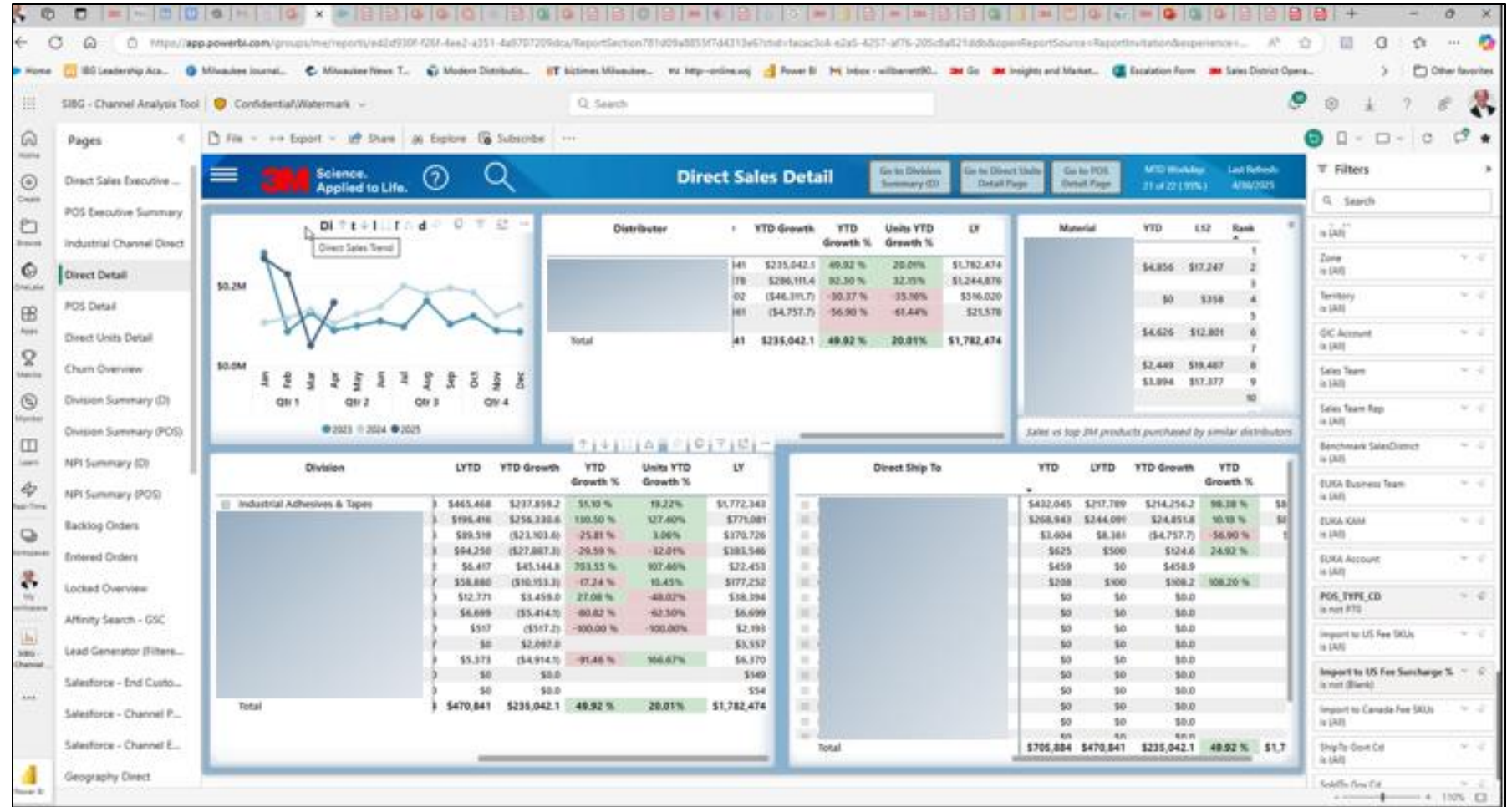


# Customer Segmentation with Potential Unlocks:

- Sales Growth
  - Inventory Improvement
  - Pricing Excellence
- 

# Determining Customer Potential creates real Gap Analysis

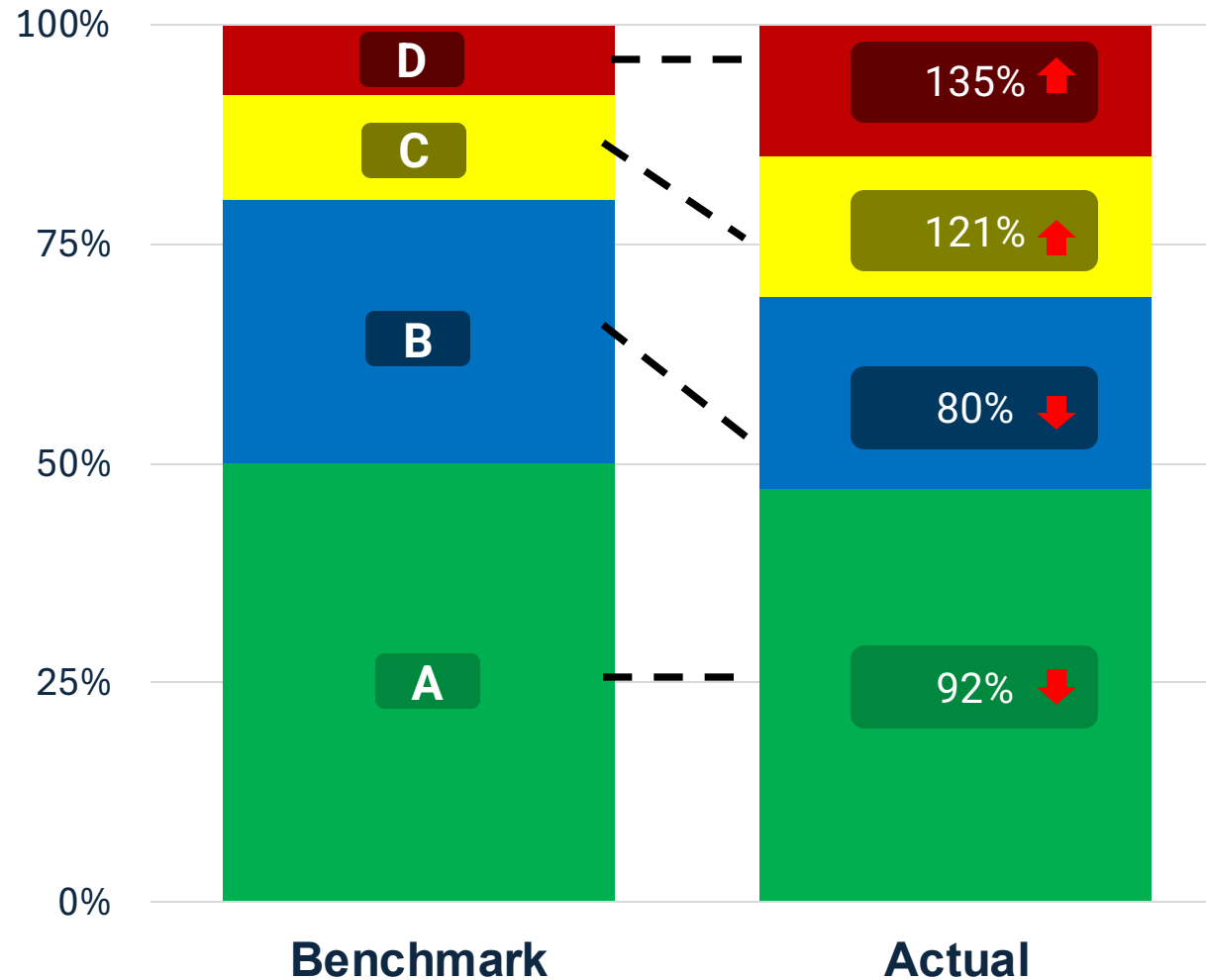
- Exposes share-of-wallet gaps
- Quantifies account growth potential
- Guides strategic focus
- Supports sales organization structure
- Determines marketing strategy
- Improves forecasting
- Highlights product gaps
- Determines when to say no



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# Customer Segmentation is key for Inventory Optimization



|   | Data Insight   | Action  | Impact  |
|---|--|---|---|
| 1 | <ul style="list-style-type: none"> <li>Over allocated on D's and C's inventory as compared to benchmark</li> </ul> | <ul style="list-style-type: none"> <li>RGAs of D inventory to suppliers to free up working capital</li> <li>Inventory more same-day/next day A's and B's</li> </ul> | <ul style="list-style-type: none"> <li>+10 - 30% increase revenue and inventory turns of A's and B's</li> </ul>                                   |
| 2 | <ul style="list-style-type: none"> <li>Under allocated on A &amp; B's</li> </ul>                                   | <ul style="list-style-type: none"> <li>Get the right level of A&amp;B inventory to improve first time fill rates</li> </ul>   | <ul style="list-style-type: none"> <li>Stock sales are the backbone of any business. Fill Rates create happy customers and more profit</li> </ul> |
| 3 | <ul style="list-style-type: none"> <li>C's are becoming D's</li> </ul>   | <ul style="list-style-type: none"> <li>Act before the problem starts</li> </ul>   | <ul style="list-style-type: none"> <li>Proactive Management of Inventory</li> </ul>   |

|          |          |          |
|----------|----------|----------|
| Same-Day | Next-Day | 2-3+ Day |
|----------|----------|----------|

**Freeing up \$1 in slow moving inventory can generate \$2-3 in same-day/next-day inventory sales**

# Pricing Excellence is key for 2025 Growth

## Traditional (AD-HOC)

- Experience- and intuition-based decisioning
- Unscientific process
- Group consensus
- Managerial call/feeling
- Pricing Leadership resides in Sales

- Fear of Losing Orders
- Competition Pricing
- "Fair Price" Margin
- Historical Margin
- Experience of Team

- System Price not a relevant price
- High Manual Pricing
- Inconsistent Pricing – C Customers get A prices
- Chaotic Process w/ Holes

**± 0 - 2%**  
Minimal Margin  
Improvement or  
Decline

Pricing  
Process

**Decision Making  
Factors**

**Price  
Moderators**

**Price Setting, Review  
&  
Decision**

**Final  
Price**

## VALUE- BASED

- **Customer Segmentation**
- Support, validate and test pricing decisions
- SPA-CSP Analysis Improve
- Price Profiles
- Pricing team leads with field input

- Market Level Pricing Analytics
- Price Elasticity
- Competitive feedback is formalized
- Data Drive decisions with field leadership

- **Analysis of customer size, type potential**
- Price profiling increases consistency
- Expected Financial returns
- Create relevant market level prices

**+1 – 4%**  
Margin Dollar  
Improvement  
(+100 – 400 bps)



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# What metrics are most important in 2025?

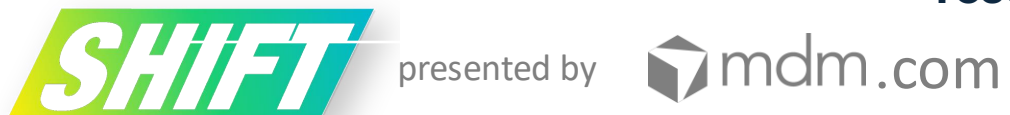
## B2B Distributor

- **Sales Growth (Stock) Unit and/or Dollars**
- **Rebate Performance (profitability driver)**
- GM% performance SPAs, CSPs (Stock and Direct)
- Contracted Agreements w/end customers (Barriers to Exit and Entry)
- **Increase Share with “Must Have” Accounts**
- Share Growth versus their competition (which varies often by product category)
- Inventory Balance “Just Right” Inventory Mix – A-B-C-D-S Mix
- New Product Introductions – Training

## Manufacturer

- **Sales Growth (Stock) Unit and/or Dollars**
- Expansion of SKU's stocked and sold
- Contracted Agreements w/end customers (Barriers to Exit and Entry)
- Increase Share with “Must Have” Accounts
- New Product Introductions – Vitality Index - Training
- Share Growth versus their competition (which varies often by product category)
- **Rebate Payout (must drive growth)**
- GM% and GM\$ performance – Manufacturers have stronger GM guardrails.

**World Class Customer Segmentation helps you effectively manage your business and your limited resources most effectively**





# Customer Segmentation

- Sales Growth
- Inventory Improvement
- Pricing Excellence

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