

# Drive Greater Profitability Through Customer Analysis:

Realizing the ROI of Customer Segmentation



Most distributors are wired for dealmaking; customer segmentation realigns the focus on making the best deals – **those that are the most profitable.**

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Every distributor knows that some customers are more profitable than others, but many fail to operationalize this knowledge to guide their sales strategies.

That can be a costly mistake. For distributors, pricing is critical in improving margins and increasing profitability. According to global management consulting firm McKinsey & Company, a 1 percent price increase across the product portfolio has more impact on bottom-line margins (earnings before interest, taxes, depreciation, and amortization; EBITDA) than a 1 percent uplift in volume, a 1 percent reduction in procurement cost, or 1 percent decrease in selling, general, and administrative expenses!

Digging deep into customer segmentation is key to unlocking new levels of profitability. By analyzing and segmenting your customers, you can make different pricing choices for each group to ensure you are pricing each customer according to their characteristics.



# Segmentation by Customer Group



## Categorize your customers by their size/type and by what they buy.

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Many distributors have basic customer segmentation in place – customers that place large and/or ongoing orders and customers that place smaller or more sporadic purchases. However, keep in mind that this is likely how all your competitors are segmenting their customers too. A more sophisticated approach to customer segmentation is based on customer behavior or needs.

For example, let's look at customers that are Heating, Ventilation, and Air Conditioning (HVAC) contractors. Within this larger customer segment, a distributor may have customers that are commercial HVAC contractors, while others may be residential HVAC contractors. While both sets of contractors are involved in the same trade, they buy different products. As is often the case, a commercial HVAC contractor won't buy as many thermostats as residential HVAC contractors. So, a residential HVAC contractor may receive better pricing than a commercial HVAC contractor whose thermostat purchase volume is less.



# Segmentation by Cost to Serve



## Categorize your customers by the costs they impose on your organization.

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Over the past two years, distributors have become more keenly aware of the cost to serve their customers—in part due to surging shipping costs. But there is a myriad of other expenses that factor into this equation.

For example, a contractor that places their order online has a lower cost to serve than another customer that places their order via the call center. And the customer that picks up that order at your facility with a self-service code to access a locker has an even lower cost to serve than the customer whose order is delivered via truck.

A cost-to-serve analysis reveals the actual cost of servicing individual customers. By understanding the overall cost to serve associated with each customer, distributors can group customers into cost-to-serve categories. Pricing should then be aligned to recover or offset these costs to serve.

Customers that are less costly to serve result in higher margins for your business, such that you can provide a discounted price (if warranted) without cutting into your profits. Alternatively, these customers may warrant another type of special treatment in exchange for their cost-effective means of engagement with your company. Alternatively, you'll want to ensure that your pricing isn't allowing customers that exact a high cost to serve to eat into your profits.

According to management consulting company **West Monroe Partners**, using a cost-to-serve analysis to value and segment customers by profitability rather than by tenure or topline revenue is a critical strategy that substantially improves bottom-line revenues.



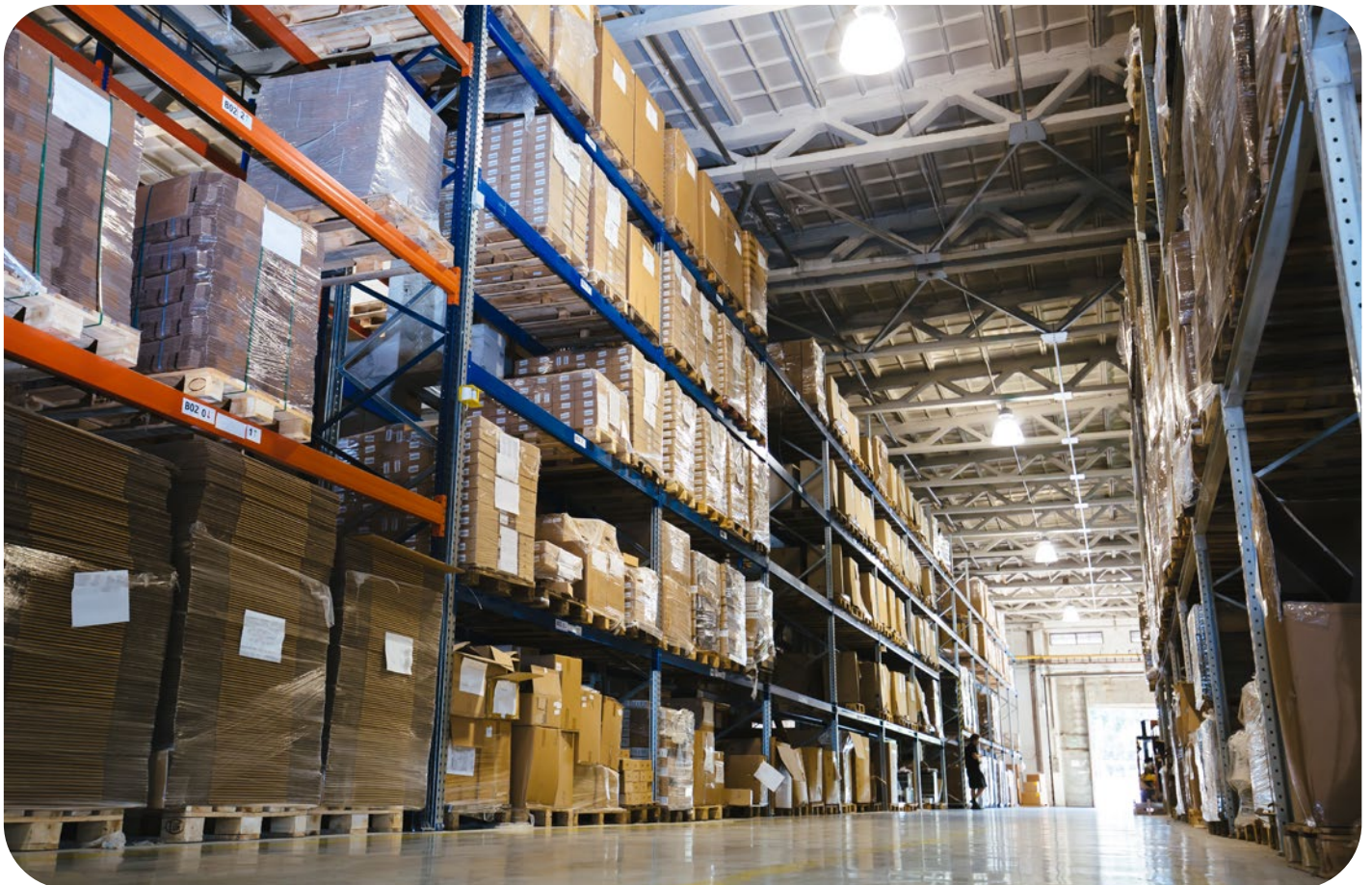
## Resist the Urge to Apply Surge Pricing

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Most distributors are mindful of specific products that must be competitive with their pricing. Likewise, there are other products where customers are far less price sensitive. Over the past two years, supply chain issues, inflation, and product and staff shortages have created unprecedented market conditions.

A survey published in November 2021 showed that more than half of retail businesses surveyed are using inflation to drive up prices higher than necessary to offset increased costs – and over half had raised prices by 20 percent on average. We've also seen this tactic in the distribution industry during the pandemic when R-95 masks were being sold at double the price.

Distributors with a high sales velocity item in high demand and short supply will want to be careful of how much they charge. Distributors leveraging fear and uncertainty to realize higher profit margins must be tempered with the understanding that customers can and will remember when they've been burned. Make sure you are being principled in your pricing strategies. Make sure you are being principled in your pricing strategies.



## Meeting the Pricing Imperative

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More distributors are starting to realize the need for customer segmentation for pricing optimization. If your organization isn't prepared to implement intelligent pricing practices, you can be sure your competitors will. More distributors are being exposed to the need for customer segmentation for pricing optimization. If your organization isn't prepared to implement intelligent pricing practices, you can be sure your competitors will.

In the past, many distributors would set their price sheets at the beginning of the year then review and adjust their pricing once a year after that. Now, we are in a period of intense manufacturing price volatility, with product costs fluctuating wildly. Distributors no longer have the luxury of setting and forgetting their pricing. Customer segmentation and pricing must be an ongoing exercise. Distributors no longer have the luxury of being able to set and forget their pricing; customer segmentation and pricing must be an ongoing exercise.

The best pricing strategy doesn't rely on offering low prices; it's based on driving profitability and customer experience. This is how you win over the long term.

When your segmentation and pricing are based on real data, your organization is focused on dealmaking that drives optimal profitability.

White Cup Pricing gives you the tools and methodology to drive value through consistent profitable growth. With White Cup Pricing, complex customer and product segmentation and pricing analysis that used to take weeks now take minutes.

Customer and product segmentation is the foundation for intelligent pricing practices. Without the right tools, it can be a daunting task. White Cup Pricing allows distributors to visualize and realize the opportunities within your customer and product segments.

### **This gives distributors the ability to:**

- Group customers by buying habits, profitability, and cost to serve – not just by size to discover new opportunities to make price adjustments.
- Easily view the big picture of segment performance or drill down into customer and product data.
- Quickly generate “what-if” scenarios to model potential outcomes before committing to overall segment changes.

**White Cup Pricing gives you the ability to capitalize on the institutional knowledge of your customers. And this knowledge is power—the power to apply the right pricing to every customer to drive the maximum impact in profitability.**



## Get in the Data-Driven Driver's Seat with White Cup

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In the distribution space, you face challenges never before experienced, and your customers are too. It's a whole new world that requires unique strategies to unlock new sales opportunities and build relationships based on a deeper understanding of your customers' needs. It's a whole new world that requires new strategies to unlock new sales opportunities and build relationships based on a deeper understanding of your customers' needs.

Ready to get in the data-driven driver's seat? White Cup turns a distributor's sales pains into profit gains. Our CRM, Business Intelligence (BI), and Pricing software make it easier for you to sell more, keep more profit, and beat the competition. With over 20 years of experience, White Cup is trusted by more than 1,000 customers globally.

# About Us

White Cup offers a Revenue Intelligence platform with integrated solutions specifically designed for the wholesale distribution industry. Our software captures data across critical business systems, reveals industry-specific analysis, and provides the tools needed to take action for revenue improvement. To learn more, visit [whitecupsolutions.com](https://whitecupsolutions.com).

Let's Talk