Priming the wholesale distribution revenue engine: Implementing an effective cross-selling strategy
Introduction

The wholesale distribution industry is facing serious and evolving profitability challenges. In addition to continued gross margin compression, Deloitte analysis shows that decelerating revenue growth has led to a flattening of sales and administrative expense productivity. Together these dynamics are pressuring bottom line profits as never before.

Under current conditions, wholesale distributors should focus on cross-selling and upselling as a strategic capability to drive enterprise value. Most are familiar with the basic concept, but truly institutionalizing cross-selling as a fundamental element of the sales process can present a tremendous opportunity while creating an even greater challenge.

Deloitte’s most recent industry survey illustrates that while many wholesale distributors see cross-selling as a priority, they are also challenged to overcome organizational, analytics, and execution hurdles.

We've helped to solve these challenges for numerous companies with a clearly defined approach that:

• Identifies high probability targets through analytical modeling
• Leverages industry and sales organizational experience to define a tailored program
• Aligns and communicates results and incentives to reinforce adoption and desired behaviors across the organization
• Drives disciplined execution across business units and geographies

Companies with significant internal barriers or unrealized synergies across sales organizations can expand their operating margins with the right approach, a clearly defined strategy and proper guidance.
Assessing the challenge
Almost all wholesale distributors have launched cross-selling efforts in the past. However, in our experience, most companies have yet to achieve significant benefits from it. A reason for this might be that they typically do not focus on developing cross-selling as a strategic capability to drive enterprise value.

These cross-selling efforts typically consist of a mandate to the sales force to sell a broader portfolio of items to their customers, without much planning, analysis, or deliberate program execution. Without the right capabilities in place, these types of efforts have the potential to do more harm than good.

Representative example of cross-sell opportunity (for illustrative purposes)

Is cross-selling right for you?
To determine if cross-selling could be an effective tool, distributors should consider first conducting a rigorous customer and prospect segmentation to identify the most valuable customer attributes. This information will allow distributors to recognize how core and specialty businesses intersect, complement and build upon each other.

We have seen cross-selling programs increase an existing customer’s revenue by 25 percent to 50 percent. Even small changes in a distributor’s cross-sell customer base can have significant impact in the overall top line.

For example, a distributor aiming to grow its specialty business cross-sell efforts to 25 percent of its customer base (from a current level of four percent) could yield an overall revenue uplift of close to 10 percent. This revenue would be at a significantly higher margin given typical specialty businesses

Case study:
A recent occurrence with an electrical and industrial supplies distributor highlights the complexity in effective cross-sell, as well as the potential incremental returns from a well-executed platform. The company has long marketed the breadth and depth of its product portfolio as a competitive differentiator. However, many of their customers were unaware of numerous recent catalog additions in adjacent categories and of the growing services and solutions portfolio.

As a consequence, inventory turns were slowing, margins were flat, and top line sales were not growing as expected. To change this dynamic the company undertook a number of targeted actions to drive additional cross-selling such as:

• Placing greater emphasis on integrating acquired companies and products
• Aligning go-to market efforts across brands and channels
• Driving demand creation programs that highlighted the cross-sell messaging
• Training sales reps and specialists
• Refining management incentive and sales force compensation plans

The company mapped its product category penetration with key customers on a branch-by-branch basis. This allowed the distributor to see which branch locations were more effectively cross-selling the full portfolio and where there was trapped potential. These efforts have paid dividends. In its phase one pilot with key accounts, they are realizing a 30 percent year over year growth.

Core commodity business
- 90% of customers
- 15% gross margin

Cross-sell
- 4% of customers

Speciality business
- 10% of customers
- 30% gross margin
An understanding of customer attributes should evolve over time with a steady effort at enhancement and refinement. Insights from consumers, suppliers, influencers, and regulators will help bolster an understanding of the field.

It is important to look at these details with a series of questions in mind:

- Can you drive organic growth by increasing cross-sell customers?
- Can you enhance the customer experience end-to-end by addressing multiple- sometimes unanticipated-needs?
- Can you expand margins and overall enterprise value cost-efficiently?

Defining the “cross” in cross-selling
What is the best method to approach cross-selling in the practical, resource constrained world of wholesale distribution?

Targets: Who are our priority targets for cross-selling? Not all customers have the same needs or offer the same value potential. Use analytics tools to identify key traits indicating cross-sell potential of specific product or services and prioritize.

Capabilities: What skills do we need? Repeatable management processes that drive collaboration, enable discipline and capture learnings to continuously improve, in addition to the appropriate technology to achieve sustainability.

Incentives: What incentives will drive right behaviors? Design and execution of incentives (including non-monetary) aligned to targets and processes established. Incentives on their own are not enough.

Execution: How do we execute in the field? A balance needs to be struck between process improvement and financial benefits. Too much focus on process improvement and not enough on financial benefits often leads to lack of program momentum. Focusing on financial benefits without regard to process can lead to sustainability issues.

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Components of success

1. Market analytics

Typical “sell-to” views are a good starting point, but provide only a biased and limited vantage point. Instead consider developing a “customer” view of the world that incorporates market information (e.g. industry, trade or public government databases). Together with company sales data, this information can provide a broader set of customer attributes to test for.

For example, an industrial chemicals distributor could use hazardous waste data from the US federal or state agencies to enhance their internal sales or CRM database. This could potentially uncover triggers for cross-selling opportunities in the water treatment or waste management space. Of course, this is no simple exercise.

Understanding key attributes indicative of cross-selling patterns becomes a combination of art and science. Incorporating both successful experiences and failures from the field is also imperative.

The data you’ve collected should be scrutinized in four ways that build upon each other.

- Structure historical data—In order to design a successful program, customer data must be structured appropriately and combined with external databases. This will provide an enhanced and clear view of where common attributes align. The purpose of this step is to ensure the right mix of internal and external information that will ensure effective data mining.

- Identify and apply cross-selling attributes—The first step is to identify any existing cross-sell customers you’ve served in recent history. Next, identify the key attributes that make them cross-sell customers. You will also need to develop an algorithm to filter your potential cross-sell customers based on relevance and priority.

Attributes can include, size, sector, incumbent product sales, relationship and regulatory commonalities, but can also include other appropriate attributes. In most cases, the attributes will need to be prioritized. For example, a food distributor would prioritize the type of business, number of locations, demographic information such as population density, income levels or age brackets in specific locations. In many cases relevant state and local regulations would also be included.

- Validate with field sales—This is where theory meets practice. Where you start testing your understanding of customer needs, preferences and relationships with the help of a group of seasoned sales professionals across key regions. Make use of tribal knowledge by validating the preliminary screening results with your sales teams. This will help refine the filtering algorithm you created in the last step and target your results more accurately.

- Refine based on execution experience—Once each of these exercises is completed, you should understand the best cross-selling targets within your customer population. From here you can take a step-by-step approach:
2. **Enterprise processes**

An effective cross-selling process prioritizes collaboration between sales teams. This typically does not happen naturally and enables a disciplined execution through a clear definition of roles and responsibilities. A structured process-based approach can drive disciplined execution to accelerate success.

This approach can sometimes risk overburdening the sales teams, especially the incumbent. This is why organizations should invest in a Center of Expertise (COE) or cross-selling program office to provide execution support, including needed tools and templates. In many cases, this may be a temporary development until the cross-sell capability is fully institutionalized. A COE can be a tremendously worthwhile investment with a payback from cross-selling benefits in one to two years.

- **Initiate lead conversion**—The new cross-sell initiative needs to be communicated to the sales teams and initial intelligence drawn for input into planning conversations.

- **Develop joint account plan**—This activity defines how the sales teams will collaborate. Hypotheses should be developed regarding what each target needs and an understanding of past buyer behavior and existing buyer relationship must be internalized. At this point, the distributor’s value proposition in each business segment and that of the competition needs to be assessed, as well as any existing agreements and deal structures.

- **Engage target and qualify**—This is, again, where theory meets practice, or more specifically, where all the preparation the sales teams have done can begin to pay off. Qualifying the target at this juncture, after the initial approach is imperative. Early discarded targets, should be documented even in more detail than those showing promise.

- **Manage opportunity**—As each of these opportunities develops, it is imperative to track and push for progress even more than for other opportunities. Sales organizations can default to their typical siloed behavior if not monitored closely.
3. **Enterprise incentives**

Relationships and incentives have always been at the core of any selling program. They are especially important for cross-selling. We are asking established, successful sales people to share strong, longstanding customer relationships with colleagues from a different product or service line, putting their own reputation and business on the line. That said, financial incentives alone, both one-time referral bonuses and variable based on business value, are not enough.

Research shows that the number of cross-sell referrals often drops not long after a simple financial incentive program is put in place. As a result, a more comprehensive approach including non-financial recognition through leadership or company-wide communications should be the goal.

How incentives are executed also has an impact on how a cross-sell program is accepted. Transparency, visibility and timing, linking specific efforts to payouts encourage sales teams to keep the cross-sell effort as a priority. The referral process needs to be clear and simple to use and opportunities must be easily tracked through the pipeline. Finally, paying incentives promptly is exceedingly important as it’s been shown that delays in payment slow cross-sell momentum.

4. **Market execution**

A common misperception among sales teams when implementing a cross-sell program is that it will require excessive additional effort and time from them. To alleviate this concern, communicating that the execution of the program is not designed as a separate channel, but rather as an evolution of business as usual is extremely important.

Cross-selling strategies should be folded into existing processes, meetings and scheduled appointments where possible and all efforts on creating and refining algorithms and models need to ultimately become a part of the standard program.

Beyond that, organizations must strike a balance between how a process is improved and the financial stakes of implementation. Too much process improvement without a financial benefit to the organization often results in a program without momentum, or worse, a program that doesn’t work at all. On the other hand, too much financial benefit with processes that are either cumbersome or don’t work can result in short-term gains that fade over time. This can cause referrals to drop off.

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**Process improvement**

Process generation, refinement and documentation is critical to the long-term sustainment of the initiative:

- Target generation
- Roles and responsibilities
- Joint account planning
- Incentive alignment and calculation

**Financial implications**

However, financial benefits and velocity must be proven to achieve executive and organizational buy-in to the program:

- Sales growth
- COGS reduction
- Gross margin growth
- Incentive payout delta
- Sales cycle time reduction
- Forecasting of future benefits

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Making the case for cross-selling
There is no doubt that a comprehensive cross-selling / upselling program can be a boon to a wholesale distribution organization looking to boost margins, increase customer stickiness, and manage rising costs. But effective and efficient cross-selling does not come easily. It often requires an experienced, structured and guided approach.

This approach uses analytics to make smart decisions and create formalized processes. The approach also allows sales teams to repeat successes, incentives that share wins with sales teams and a transparent, clarity of execution to make it all work. A commitment from leadership is required to collaborate and communicate in order for the program to mature.

When implemented correctly, a cross-selling program is not at all about asking more of your sales force. Instead it is about leveraging your existing sales teams to expand your reach and to provide unexpected value to customers. To make a larger footprint in the industry. With a larger footprint, can come a larger share of success to the organization.
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