

2023 Sales Management Case Competition

Sales Transformation at Rexel USA

CASE DISCLAIMER: Please understand that this case is about a real company, Rexel. Like most companies, Rexel takes great pride in making sure that the sales organization is given everything it needs to succeed. Rexel is also committed to trying new things in the sales organization in an effort to be the best sales team in the industry. So, in that sense, the issues presented in this case are real for Rexel. However, the “facts” of the case are purely fictional and are used for the sole purpose of the ISCS case event.

Case Introduction

Shawn Mumma, Rexel Regional President for the Southeast, was driving home after a long few days of meetings with the corporate leadership team. The meetings were attended by Brad Paulson (Rexel’s CEO), Jordan Lomheim (Chief Strategy Officer), and Jacqueline Faulk (Regional President for Florida). The reason for the meetings was that the executive leadership team really feels that it might be time to make some significant changes to the way the sales function operates at Rexel. With this in mind, Brad, Jordan, and Jacqueline flew into Atlanta to spend a few days with Shawn to discuss ideas for improving the sales team. Shawn and Jacqueline had a reputation for running some of the better sales teams in the company and so the executive leadership team wanted to get their take on things and use their regions as a pilot of any changes that might get rolled out to the rest of the company.

The conversation with the group was extremely productive and revolved mostly around a report that McKinsey consulting had put together for Rexel. The report (see below) was put together after McKinsey conducted sales force assessment looking at the different aspects of Rexel’s sales team. McKinsey’s conclusion was that there were four key areas where improvement could be made that would help Rexel stay on of the top sales organizations in the electrical supplies industry. After reviewing the report, the team of Rexel leaders bounced a couple of ideas around about what they might do to make their sales reps even better. But, the meetings

were only a couple of days and everyone agreed that they wished that they had more time to brainstorm on what to do.

The time had come for Brad, Jordan, and Jacqueline to head to the airport and they needed to set some next steps. Brad turned to Shawn and asked, “Shawn, do you think you and Jacqueline could take the lead on this? You have the McKinsey report and you know that Jordan and I think that you run two of the best regions in the country. So, we are happy to try anything that you come up with to address some or all of the issues in the McKinsey report. And if you need any outside resources, I am happy to consider it. Take some time and think about it and come back to me with what you think we should do and what you need to make it happen. But we are counting on you because if it works in your regions, then we will want to roll it out to the rest of US sales regions.” Shawn and Jacqueline both agreed that they would put their heads together and come back to Brad with a plan as soon as possible.

As Shawn was driving home, he realized that maybe his commitment to Brad was premature; this is a tough time of the year to be spending a lot of time on side projects. The end of the year is fast approaching and this is the time where both Shawn and Jacqueline are pushing as hard as possible to generate revenue and maximize profitability for year-end reporting. Suddenly, Shawn had a flash of brilliance. He remembered that he met a couple of sales effectiveness consultants at a conference for sales leaders in Orlando, FL several months ago. Shawn thought out loud, “I wonder if we could get that team to take a look at the McKinsey Consulting report and help us determine ideas for tackling some of the issues on the list. I am going to call them first thing Monday morning.”

Monday morning came quickly and Shawn was in a great mood as he walked into his office located in northeast Atlanta. He was still thinking about the great win his Penn State Nittany Lions had over Indiana on Saturday when he saw the post-it note on his desk that said “call sales management consultants”. After settling into his desk, he did a quick LinkedIn search and found YOUR LinkedIn page. He clicked your contact information and dialed your cell number. Fortunately, you had also just walked into your office and were getting ready for the week when Shawn’s call came through.

It took you a few seconds to remember meeting Shawn at the industry conference but your initial meeting with Shawn came to you quickly and you thanked him for reaching out to you. After exchanging a little small talk, Shawn got right to business. He provided the details of the executive leadership meetings from the week before and gave you the 30-second overview of the McKinsey Report. He then asked if you had any interest in helping with the sales effectiveness improvement project at Rexel. You replied that this certainly sounds like something that aligns perfectly with the types of projects that you typically work on for other clients. Then, you asked, “why don’t you just use McKinsey to help you with the improvements needed in the sales organization?”

Shawn replied, “Have you ever worked with McKinsey? They are incredibly expensive and have a reputation for only working with clients who are willing to engage in full roll-outs to the entire company that will take months, if not years, to complete. That’s not our style at Rexel. We have eight regions so we can test ideas in one or two regions and then expand initiatives if they work. Plus, McKinsey is a more of a general, strategic consulting firm and we want someone with a lot more expertise in improving sales effectiveness. I remember meeting a few other sales leaders at the conference that had used your services and you come highly recommended.”

You thank Shawn for the compliment and suggest that the first step would be for you to review the issues in the McKinsey report and then have a quick initial meeting to review some high-level ideas about a plan of attack. Shawn agrees and asks that you sign a Non-Disclosure Agreement and then he will email the McKinsey report over to you. All of this was done quickly and you had the McKinsey report in hand by the end of the day. Shawn also sent over an overview of Rexel that marketing uses in its customer campaigns. Both are below...

Overview of Rexel USA

Rexel USA is a prominent electrical supplies distributor that plays a crucial role in providing electrical products, services, and solutions to a wide range of customers, including electrical contractors, industrial facilities, utilities, commercial businesses, and more. The company is a subsidiary of the global Rexel Group, one of the world's largest distributors of

electrical supplies. Rexel USA is part of the larger Rexel Group, which was founded in France in 1967. Rexel Group quickly expanded globally and established its presence in the United States through various acquisitions and mergers. The company's commitment to providing high-quality electrical products and solutions has made it a leading distributor in the United States.

Product Portfolio:

Rexel USA offers an extensive range of electrical products and solutions, including electrical wire, cable, lighting, automation, control products, and other essential components. They provide a wide variety of top brands and products that cater to the demands of the electrical industry.

Customer Base:

Rexel USA serves a diverse customer base, including electrical contractors, industrial organizations, utility companies, OEMs (Original Equipment Manufacturers), commercial and residential builders, and maintenance professionals. The company tailors its offerings to meet the specific needs of each customer segment.

Branch Network:

Rexel USA operates a vast network of branches and distribution centers throughout the United States. This extensive geographical coverage ensures that customers have easy access to their products and services. The company's strategic branch placement allows for efficient product distribution and fast delivery.

Value-Added Services:

Beyond product distribution, Rexel USA offers a range of value-added services to its customers. These services include technical support, product training, energy management solutions, and innovative e-commerce platforms. Rexel USA is committed to helping customers find the right products and solutions for their projects.

Sustainability Initiatives:

Rexel USA places a strong emphasis on sustainability and energy efficiency. They work with customers to promote energy-efficient solutions and products, contributing to the reduction of energy consumption and environmental impact.

Industry Leadership:

Rexel USA is recognized as a leader in the electrical distribution industry in the United States. Their commitment to excellence, extensive product offerings, and customer-focused services have helped them maintain a strong position in the market.

Digital Transformation:

The company has invested in digital transformation, offering online ordering and e-commerce solutions to make the procurement process more convenient for customers. This shift toward digital platforms allows for easier product selection and tracking.

Safety and Compliance:

Rexel USA prioritizes safety and compliance, ensuring that all products meet industry standards and regulations. They provide customers with the assurance that the products they purchase are of the highest quality and adhere to safety guidelines.

In summary, Rexel USA is a reputable electrical supplies distributor with a strong presence in the United States. Their commitment to providing high-quality products, exceptional customer service, and innovative solutions has solidified their position as a trusted partner in the electrical industry. Whether you are an electrical contractor, industrial facility, or commercial enterprise, Rexel USA is equipped to meet your electrical supply needs.

The McKinsey Report

The McKinsey report was very professional and laid out the biggest issues that Rexel should think about addressing to build the best sales team in the electrical distribution industry.

The first half of the report laid out what McKinsey Consulting did to generate the report. For example, McKinsey conducted a thorough review of the largest distributors in the industry that included:

1. **Graybar Electric Company, Inc.:** Graybar is one of the largest electrical and data communications distributors in North America. They provide a wide range of electrical products and services.
2. **WESCO International, Inc.:** WESCO is a Fortune 500 company and a leading distributor of electrical, industrial, and communications products. They serve various industries, including construction, utilities, and industrial manufacturing.
3. **Anixter International:** Anixter is a global distributor of electrical and electronic solutions. While it was acquired by WESCO International in 2020, it was a significant player in the electrical supply distribution industry.
4. **Rexel USA:** Rexel is part of the global Rexel Group and is a distributor of electrical supplies and services. They operate in various markets, including industrial, residential, and commercial.
5. **Sonepar USA:** Sonepar is a family-owned global distributor of electrical products and related solutions. They have a strong presence in the United States.

McKinsey also assessed a few smaller, regional distributors as well. They also conducted several interviews and surveys of Rexel's salespeople and sales managers. Based on the competitive benchmarking exercise and the review of information from the sales team at Rexel, McKinsey identified four key areas for improvement. A description of each of the main issues is found below:

1) More experienced reps get complacent in terms of pushing for new sales due to high levels of income

The first issue highlighted in the McKinsey report was that more experienced reps were becoming complacent. In other words, they were reaching \$150,000-

\$300,000 in income and there was no real motivation to try to increase sales to new or existing customers. Reps at Rexel are typically given an account package of 30-40 accounts with the expectation that they will try to grow sales in these accounts. There is usually plenty of opportunity to grow accounts as most buyers spread their electrical supply purchases across several competing distributors. "Share-of-account" averages 10%-20% of the account's overall expenditures on electrical supplies. However, over time, Rexel sellers may achieve higher share-of-account (30-40%) in 3-5 of the customers in their account package. The result is much higher income for sellers based on being the lead supplier for these high share-of-account customers. The downside of this is that sellers become comfortable with their high incomes and they apply little effort to growing sales in their other 25-35 accounts.

It should be noted that Rexel sellers are paid 100% commission and receive no salary once they begin to grow sales in their account packages. When a rep is first hired at Rexel, they are paid a salary of \$45,000 - \$60,000 with the potential to make an annual bonus that typically ranges from \$5,000-\$10,000. Once their account packages begin to produce higher sales, reps are moved over to the 100% commission plan where they can make a lot more money annually. Reps are not given a firm quota or sales goal for their account packages with the idea being that it is in each rep's best interest to sell as much as possible to maximize income under the 100% commission program. The expectation is that new reps grow sales in their account packages so that they can move to the 100% commission plan within 24 months of being hired at Rexel. Sales managers will often review account sales and profitability with their sales reps and will make suggestions for growing revenue/profits in individual accounts but there is not a formal program to motivate sellers beyond the 100% commission program; if reps sell more, they make more, but in reality, sellers stop selling once they reach certain incomes and their main goal is to simply maintain sales at their best accounts. Top sellers produce over \$4,000,000 in total revenue annually and their incomes average roughly 6% of average revenues on the 100% commission plan. Average sellers produce around \$2,000,000-\$3,000,000 in revenue and have income that averages 4%-5% of sales.

2) Reps are fighting the digitization of the industry as they see technology as threat instead of an opportunity (i.e. no push to get customers to switch to digital technologies). ≈ 35% usage of digital technologies in the Rexel customer base

Another issue facing any distribution company is the growth of digital sales channels where customers utilize websites and digital tools (i.e. apps) to browse products, check availability, place orders, and make payments. Historically, industrial suppliers like Rexel have been slower to embrace digital tools to help serve customers mainly due to customer resistance to using technology to manage their own businesses. However, over the last few years, some customers have begun to come around to using digital commerce tools. Likewise, Rexel has invested millions in building digital selling tools and improving the e-commerce tools they can offer customers.

McKinsey noted that Rexel should push harder on getting customers to begin using Rexel digital, e-commerce tools. Research shows that when customers get accustomed to using certain suppliers' e-commerce tools, they are much less likely to switch their purchases over to a competing supplier. Rexel has been measuring digital tool adoption over the last three years and currently, roughly 35% of Rexel's customer base is utilizing these options to transact with Rexel. McKinsey suggests doubling this by 2025.

This is easier said than done. Rexel sellers are reluctant to ask customers to use digital tools for a number of reasons. First, they fear that digital tools will soon replace field sellers and see digital tools as a direct threat to their jobs. Second, reps argue that giving customers access to digital tools is counterproductive because it encourages customers to price shop by searching for products on three or four supplier websites and then place an order based on cheapest price. Reps go on to say that this reduces the opportunity to upsell customers on higher quality products and reduces chances to offer extra services like managed inventory or to get insights on a customer's annual usage where Rexel might offer lower pricing if the customer will give a commitment for annual purchases (as opposed to just onesie, twosie purchases). Lastly, reps say that a lot of the customers are not very

technology-literate and won't know how to use the tools effectively which could cause customer service issues.

3) Customers say that most distribution sellers “are all the same”... little differentiation

McKinsey did a thorough review of the offerings from other competing electrical component suppliers including marketing materials, websites, range of product offerings, pricing models, etc. and found that distributors in this industry look very similar. Additionally, McKinsey found that customers agree that most distributor offerings and marketing communications are almost interchangeable. Most importantly, customers also said that sales conversations and tactics are very similar across competing distributors' salespeople. Results from this analysis went on to show that customers characterize seller tactics as mostly “Relational” where sellers work very hard to establish strong personal relationships as their main tool for persuading customers to buy from them. Second on the list of frequently used sales tactics was basic “consultative selling tactics” where sellers ask discovery questions followed by a presentation of a potential solution. McKinsey noted that this is a sound sales practice, however, customers still have a hard time differentiating between seller offerings when everyone uses similar consultative tactics. The end result is that customers have to use price to tell sellers apart which leads to heavy discounting and reduced margins for Rexel. Finding ways to differentiate the sales team at Rexel is suggested.

4) No real leading indicators of sales and marketing performance...simply outcome-based metrics of revenue and margin

The last suggestion for improvement in McKinsey's report was developing standardized sales metrics to use across the entire sales organization. Currently, Rexel focuses heavily on Total Revenue and Gross Profit Margin % as the two main metrics to assess seller success. Any other metrics used to assess sellers at Rexel is left up to the regional sales managers who work closely with sellers in the field. McKinsey found that regional managers are developing multiple types of KPI's that they are using to help

assess and coach sellers but this has resulted in a confusing array of sales reports in the Rexel CRM system.

The bigger issue is that most regional sales managers are using very reactive KPI's that only allow them to coach sellers AFTER poor performance has occurred. McKinsey recommends that Rexel adopt a standard set of KPI's to develop a sales dashboard for reps and managers to use to manage their respective territories. Also, it was suggested that Rexel work to develop a set of *leading indicators* that might help to pinpoint reps that might be struggling or customers who might be about to leave for another supplier, before there is an issue. These leading indicators might help sellers and managers detect whether a seller might be engaging in unproductive selling behaviors, not doing enough of the right things, spending time with the wrong customers, etc...

Your Task

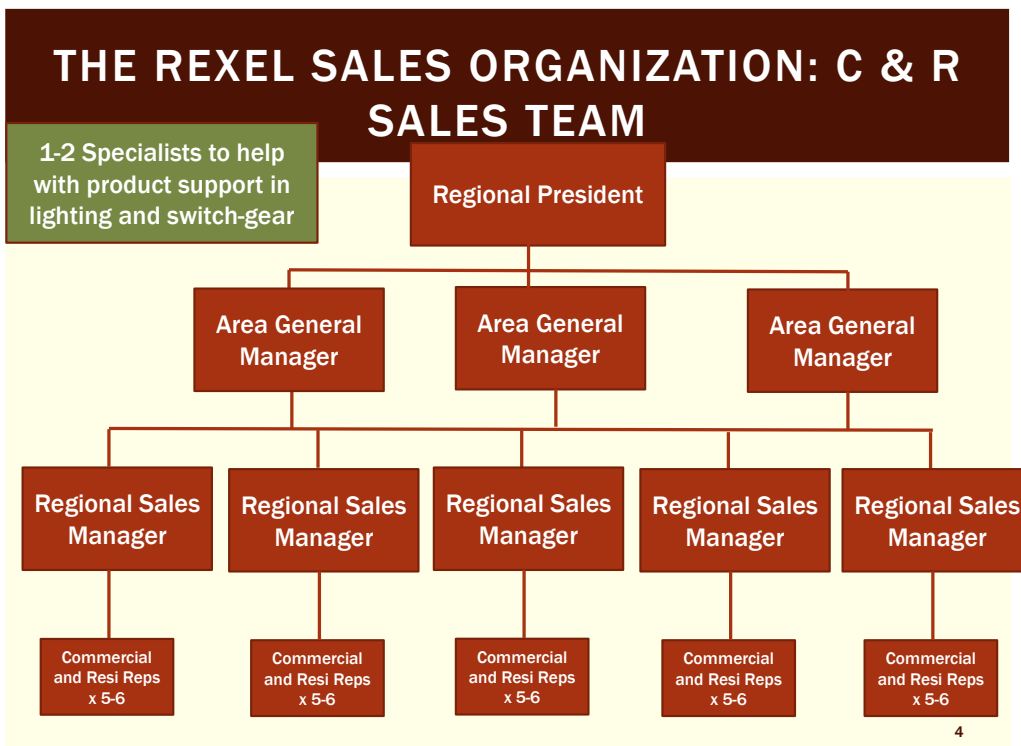
You finished reviewing the McKinsey report and fired off an email to Shawn letting him know that you feel comfortable addressing the issues in the report and reiterated that the best next step is an initial idea presentation. Shawn replied quickly saying, "Wow, thanks! That's a big help to Jacqueline and me. We certainly look forward to hearing what you come up with. And we are completely open to any thoughts you have here. If you think we can fix all four things, then OK, but if you think we should only tackle one, that's fine to. Whatever you think...you're the expert. I thought of a few other things that might be helpful and am attaching them to this email (See Appendix). Oh, and one more thing...Jacqueline and I discussed a budget today for any pilot idea you might have. Between our two regions, we feel that we can easily come up with \$2 million to allocate to any ideas you might have. We might be able to get Brad to increase the pilot budget but we will have to have really strong justification for it so please provide that if you think we need more than the \$2 million.

Appendix

Overview of Southeast and Florida Region

	Southeast Region	Florida Region
# of Outside Sales Reps	122	49
Annual Revenue	≈ \$300,000,000	≈ \$100,000,000
Average Gross Margin %	21.9%	22.3%

Regional Org Chart



Breakdown of Sources for Hiring Sales Reps at Rexel

Background of current Southeast sales force:

- **45% - worked for competitor before joining Rexel**
 - **20% - came from electrical contractor or general contractor**
 - **15% - started in inside sales/distribution and worked up through the ranks**
 - **10% came from vendors that supply Rexel with SKU's**
 - **10% came from outside the industry**
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- **Average Rep tenure = 12+ years at Rexel (aging sales force)**

Typical Onboarding and Training for Outside Sellers at Rexel

(Reps Must Finish this Training Withing First 90 Days of Becoming an Outside Sales Rep)

Course Description	Length	Delivery Method (Led by...)
Intro to Rexel	8 hours	Rexel Online Training Platform
Basic Product Training	24 hours	Rexel Online Training Platform
Advanced Product Training	36 hours	In-Person (Product Specialists)
Basic Selling Skills	4 hours	Rexel Online Training Platform
Foundations of Selling	20 hours	In-Person (Regional Sales Support Specialists)
Advanced Selling Skills	20 hours	In-Person (Regional Sales Managers)