CUSTOMERS

80%

PERFER EMAIL VS. PHONE CALLS

QUOTED REFERENCES CAN ALSO BE HELPFUL

LEVERAGE MARKETING SPENDING EFFECTIVENESS TO BOOST SALES LEADS PAIRED WITH TECHNOLOGY

SELLING IN HYPER COMPETITIVE MARKETS

WRITTEN BY MATRIX MARKETING GROUP

HYPER-COMPETITIVE MARKETS LEAD TO INCREASING PRESSURE ON SALES ORGANIZATIONS. AS CUSTOMERS ARE BOMBARDED WITH BRAND ALTERNATIVES GETTING YOUR MESSAGE OUT IS BECOMING MORE DIFFICULT. CUSTOMER PURCHASE DECISIONS LEAD TO LONGER SALES CYCLES AND HIGHER SALES EXPENSE FOR BUSINESSES.

MARKETING PRACTICE

Overview

Economic downswings or hyper-competitive markets place increasing pressure on sales organizations. As deals become fewer and smaller, sales cycles get longer, and competition intensifies, we have observed a tendency for sales teams to unleash a flurry of activity. Often, however, increasing sales activity without a focused strategy will prove unproductive. Through our research and client work, we have found that profitability can be enhanced through a more focused sales approach.

Leverage the Marketing Spending Approach to Energize the Sales Process

By applying the Marketing Spending Effectiveness (MSE) funnel to the B2B sales function, marketers can identify bottlenecks at the various stages of the sales process: *awareness*, *consideration*, *active discussion*, *proposal*, *negotiation*, *closure*, and *repurchase*. Identification of bottlenecks is the first step toward reversing the downward trend in sales and profits.

Keys to Sales Growth: Segmented Selling and Focused Actions Along the Sales Funnel

The most important insights come from understanding how bottlenecks along the sales funnel differ by customer segment. Sheer activity aimed at the entire market – no matter how vigorously it is executed – will not produce the desired results.

Four High-Impact Levers

- Increased bid participation rate
- Increased number of discussions that become firm proposals
- More sophisticated contract negotiation planning
- More focused sales resources

Hyper competitive markets increasing pressure on sales organizations. As customers cut back spending, there are fewer deals and smaller purchase sizes. Painstakingly cautious customer purchase decisions lead to longer sales cycles and higher sales expense. Price pressures and competition intensify as players become more aggressive and compete for the same set of small deals. And big players continue to get bigger as customers turn more to the "known" than to new/innovative players.

In response to difficult environments such as these, we have observed a tendency for sales organizations to unleash a flurry of activity. Often, however, this activity is unproductive. While sales reps and managers are making more calls, providing more demos, and churning out more proposals, they find themselves increasingly frustrated as sales and profits continue to trend downward. More calls and demonstrations will not always increase conversion rates. As deals get smaller, sales reps must apply more discipline in deciding which deals to pursue. Following up on endless small deals with razor-thin margins will only put further downward pressure on the bottom line. And as sales cycles lengthen, attempts to shorten the process with more aggressive calling patterns will only result in irritated customers, delayed sales processes, or getting "thrown out of the game" altogether.

Through our research and client work, we have found that profitability can be enhanced through a more focused sales approach. For example, by focusing on finding new opportunities to expand share of wallet of high-growth customers, deploying sales resources whose skills align with these opportunities, and eliminating unproductive activities of sales resources, marketers are taking the steps necessary to unlock latent productivity and dramatically reverse downward trends in sales and profits.

Exhibit 1 **Successful Organizations Focus on Bottlenecks to Growth**

	Awareness	Consideration	Active discussion
Common symptoms	Low bid participation rate Low share of wallet Few referrals		Few active deals Low call-to-appointment ratio Few active quotes
Underlying bottlenecks	Insufficient marketing communication Entrenched competitors Insufficient focus on leads	Lack of access to influencers Value proposition not attractive Reps lack selling capacity to be proactive No account plan for top customers	Lack of knowledge of customer strategy Lack of senior executive skills Compensation rewards closing over investment Lack of skills to create felt need
Levers to growth	Focus on high-potential opportunities Focus marketing efforts on awareness Deploy central group for lead generation	Develop relationship plans for top accounts Free up rep capacity for opportunity identification Create alliances to expand solutions and leads	Match skills with account potential; deploy specialists Revise compensation to encourage account planning/investment

Leveraging the Marketing Spending Approach to Energize the Sales Process

We have found a useful tool that can provide sales organizations with the insights they need to focus resources and tailor their sales approach on a segment-by-segment basis. The Marketing Spending Effectiveness (MSE) funnel is a tool for diagnosing specific bottlenecks in the way of greater usage of – and loyalty to – the brand.

The application of a rigorous understanding of the bottlenecks along this funnel – and their underlying causes – enables marketers to develop creative, targeted approaches to overcome obstacles to growth. Most important, this understanding enables them to target spending to eliminate the highest-value bottlenecks

Proposal	Negotiation	Closure	Repurchase
	■ Low conversions ■ High discounting ■ Long negotiating cycles		■ Low repeat purchase ■ Low cross-sell/up-sell ■ Contract values lower/ same
■ Slow response to bids ■ Few quality references ■ Demos not compelling ■ Inability to draw right set of experts to account	■ Lack of sophisticated negotiation tools ■ Not enough experienced deal makers ■ No transparency on customer economics	■ Reps spread thin across too many accounts ■ Quality of leads poor ■ Not enough focus early in the cycle on value	■ Poor customer service ■ Compensation does not encourage up-sell ■ Inadequate information on account/deal expirations
■ Conduct regular reviews of pipeline by managers ■ Use sales support tools – Referral/proposal database – Pitch books	■ Apply sophisticated decision support tools ■ Assign deal makers to teams ■ Provide negotiation skills training	■ Prune accounts list ■ Encourage managers to spend more time coaching ■ Share best practices across reps	■ Deploy multi-channel sales ■ Leverage e-enabled tools ■ Update contact database ■ Introduce customer satisfaction as key metric

in the highest-potential segments. As a result, they can build sales quickly and effectively. For example, many new brands face bottlenecks at the awareness stage, particularly for new entries due to insufficient intensity or creative appeal in marketing communications.

In the B2B sales function, bottlenecks can develop at any of the stages in the sales process – *awareness, consideration, active discussion, proposal, negotiation, closure,* and *repurchase* (see Exhibit 1). For example, poor communication of company capabilities to industry influencers or insufficient focus on lead generation can limit growth in the *awareness stage.* A bottleneck to moving from awareness to consideration is typically one of access, which is the result of not knowing the right people in the customer's organization. In subsequent stages, a lack of sales rep ability to discuss business issues at the executive level usually prevents movement from *consideration* to *active discussion*. Getting on the customer's shortlist requires a responsive sales infrastructure and sophisticated negotiation tools. Finally, moving from *closure* to *repurchase* requires outstanding customer service, a convenient repurchase cycle, and proactive/early notification of contract expirations.

Segmented Selling and Focused Actions Along the Funnel – Keys to Sales Growth

The most important insights come from understanding how bottlenecks along the sales funnel differ by customer segment (see Exhibit 2). Sheer activity aimed at the entire market – no matter how vigorously it is executed – will not produce the desired results.

For example, the sales organization at a large high-tech company evaluated the sales funnel for its top 50 accounts. The evaluation indicated that the company was not being asked to bid on as much as 40 percent of opportunities in these accounts. When the company was invited to submit a proposal, however, it was enjoying a 50 percent win rate. Still, overall share of wallet from these accounts was only about 15 percent. Closer scrutiny revealed that account managers were more focused on retention of existing revenue streams and managing contract implementation than on identifying new opportunities across other divisions of their accounts. As might have been expected, the compensation structure for the sales organization favored the perpetuation of existing revenue streams over the growth of new ones. Additionally, the sales organization suffered from a lack of relationship-building skills when faced with new buyers, especially those outside of the traditional buyer set – IT professionals.

Understanding these bottlenecks enabled the company to deploy a targeted approach to address the problem areas. For example, management deployed teams whose sole responsibility involved growing new business by increasing the number of conversations with key decision makers. Team specialists provided expert support to generalist reps who pitched solutions to nontraditional

Exhibit 2 **Focused Sales Approaches – Technology Industry Example**

Target segments	**Very Large Opportunity Accounts** >€500 million in revenue potential	**Large Opportunity Accounts** >€100 million in revenue potential	**Small/Medium Accounts** <€50 million in revenue potential
Revenue/profitability	■ High-share/high-growth accounts ■ Margins trending down	■ Low-share/high-growth accounts ■ Retaining attractive margins	■ Low-share/high-growth accounts ■ Margins holding steady
Key bottlenecks to growth	■ Low bid participation rate ■ Business decision makers becoming more influential ■ Shift to more services/ solutions	■ Low proposal/conversion rates ■ Industry-specific customer needs are not being met ■ Lack of awareness of innovative products	■ Low overall market share ■ Existing relationships with local VARs ■ Market perception of complex products requiring integration
Strategy	■ Increase share of wallet ■ Court new decision makers ■ Retain current revenue streams	■ Cross-sell new products ■ Find beta testers of new technology	■ Increase presence ■ Tailor marketing message ■ Double operating margins
Sales approach	■ Account teams led by senior executive with "consultative" skills ■ Dedicated solutions leader grows software/ services deals ■ Sales reps realigned towards new business buyers ■ Dedicated telesales rep to manage current contracts	■ Shared account teams led by account manager –Specialists for better solution design ■ Alliance partners for "best of breed" solution development ■ Focus on industry referrals ■ Web-enabled customer service, plus dedicated centers to manage customers	■ No direct face-to-face ■ Increased marketing spend ■ Dedicated telesales and Web resources by cluster to ensure adequate focus ■ Partners aligned with clusters for lead generation and fulfillment ■ Web-enabled customer service plus 800 number focused on revenue generation

buyers. Dedicated telesales reps were responsible for managing retention revenue streams. These actions resulted in a share-of-wallet increase of 8 to 20 percent in their largest accounts.

When the same company evaluated its smaller accounts (those with less than $50 million in revenues), it recognized it lacked overall presence in this segment. Interviews suggested that small businesses did not perceive their products to be "friendly" or priced competitively. In addition, small businesses had relationships with local Value Added Resellers (VARs) who were unwilling to sell the company's products because profit margins were inadequate. Here the actions necessary to move beyond the bottleneck were very different from those taken to address large accounts. The company initiated a combination of "pull" marketing among small businesses and alliance building with VARs to increase mind share. In addition, they created clusters of small businesses that were actively managed by a "small business cluster manager" who had access to and authority over dedicated telesales and Web resources. This improved the sales organization's ability to manage local VARs and develop local marketing programs.

Four High-Impact Levers

While the highest-potential bottlenecks as well as segments will vary by company, we have found four levers that have the highest impact during downturns:

1. Increase your bid participation rate.

To achieve a higher bid participation rate, focus on both the quality of your contacts and the clarity of your communications. For starters, most salespeople tend to stick with *who and what they know.* They don't spend enough time proactively identifying new opportunities, particularly within their current customer base. A sales rep, for example, may have excellent insights into a Fortune 500 company's data center group spending and the various projects available, but may have little, if any, knowledge of other opportunities across the company. Frequently, sales reps communicate to management that they have a customer or territory "covered" when in reality they do not.

Also, customers frequently are not aware of the vendor's full range of capabilities. For example, a company was recognized as a premier voice and data provider, but not known for Internet solutions. This is usually the result of insufficient communication of company offerings and capabilities by sales reps – either because they have not built critical relationships with key decision makers or because they do not possess the skills necessary to discuss more complex solutions and services. The consequence? These reps are not given the inside track on negotiations and thus have a reduced ability to influence deal specifications and price.

Five actions can significantly increase your bid participation rate: 1) for your top accounts, create a relationship plan that includes targeted industry or product/service experts who can detail the required actions for increasing customer awareness and coach the executives/sales reps who are responsible for the account; 2) for top account teams, deploy highly capable sales resources whose skills align closely with the specific needs of key influencers on the customer side; 3) create alliances with companies that have knowledge of opportunities at target accounts or existing relationships with key customer decision makers; 4) free up sales rep capacity to focus on identifying opportunities; and 5) revise compensation, giving higher priority to relationship building than to quota satisfaction.

2. Increase the number of discussions that become firm proposals. A sales rep's lack of understanding of the specific opportunity – or an inability to articulate the full range of benefits based on an understanding of the customer's business and competitive offerings – is a frequent bottleneck to moving customer discussions to the proposal stage. Sales reps may not realize that a bonafide opportunity does not, in fact, exist. Yet they devote long hours pursuing conversations that ultimately lead nowhere. The following three actions can significantly increase your proposal rate:

- **Conduct an up-front, fact-based evaluation of the likelihood of ulti-mately bringing a deal to closure.** At a software company, a reclassification of accounts based on future potential revealed that growth was going to come not from current large customers but from new, small market customers looking for total solutions. This new set of customers represented 60 percent of revenue growth opportunity. To evaluate this type of opportunity, some companies set up temporary councils of senior sales managers to assess the probability of deal closure and plan the actual steps needed to close the deals in process.

- **Build a team with the appropriate skill sets and expertise to determine requirements and address customer needs early in the process.** Some packaged goods companies have reorganized their sales forces around customer business teams resourced with specialists representing different categories. These teams are supported by a logistics manager, systems leader, finance deal maker, and a centralized pricing specialist.
- **Structure compensation to support advancing more complex sales to the proposal stage.** Most organizations compensate reps for revenue from deals closed, which encourages reps to choose the easy sales opportunities they know they can quickly close. To encourage investment in the more complex sales, compensation plans may need to treat each significant advancement in the sales cycle as a closure and compensate reps with a percentage of their total commission.

3. Conduct more sophisticated contract negotiation planning.

In order to close a deal and realize the highest possible price, sales reps must conduct more sophisticated contract negotiation planning up front. For example, expanding the bid specs to include a higher-value solution gives a company a competitive advantage. These up-front negotiations will influence how to play the contract both early in the process and later when the deal is structured. Most pricing decisions do not take into account the effects of supply/demand and industry scenarios and other collateral effects – economic or behavioral. This often results in a lower payoff. Successful negotiators, on the other hand, use decision support tools that include game theory and scenario planning in the early stages of the pricing cycle to develop a negotiating strategy. These tools provide a fact-based understanding of the objectives of each player, the price options (e.g., maintain or reduce), the timing (e.g., repeated or one-shot), the cost curve, and the specific competitive and demand scenarios.

In our experience, less than 20 percent of sales reps have the raw skills and training to be successful negotiators. Most enter negotiations without a solid understanding of the economics of transactions or of the specific customer situation that may require creative deal structures, such as an underbid in anticipation of a future payoff. Often, sharing best-practice negotiating tactics with average performers can add an average of 2 to 3 percent of the price realized. More complex negotiations may require creating a "deal maker" role, particularly for the most attractive and important customers. At an industrial company, for example, the creation of a pricing guru position and the dissemination of tactics used – and prices achieved – by top-quartile reps resulted in an ability to realize a higher range of prices for 75 percent of the completed transactions and significantly reduced discounting on small-volume deals.

Further, most sales reps do not always have the tools or the knowledge to determine appropriate pricing levels for a particular deal or customer. The "pocket price waterfall" is a tool that provides transparency to all of the components of the price (i.e., usage, competitive discounts, cost of giveaways, training, cost of services such as installation and customer-specific R&D). This helps reps understand the current price paid per customer and the impact of individual components of the price on customer perceptions of value. For example, Customer A may be more influenced by year-end-earned cost savings rebates, whereas Customer B may prefer direct discounts off the list price.

4. Focus sales resources.

Sales organizations, particularly in downturns, typically spread their resources too thinly across too many opportunities. Or they sometimes overinvest in certain opportunities at the expense of others. This may result in insufficient selling time for individual sales reps who have to juggle multiple accounts and, as a result, often never touch the "perceived bottom 10 percent" of their account base. Alternatively, simply "throwing more bodies" at a few key accounts may result in higher sales costs with no improvement in account penetration.

By realigning the type and amount of sales and service resources with the size of the opportunity, we have seen a 30 to 40 percent improvement in productivity. The majority of this improvement stems from the implementation of a multi-channel sales and service model.

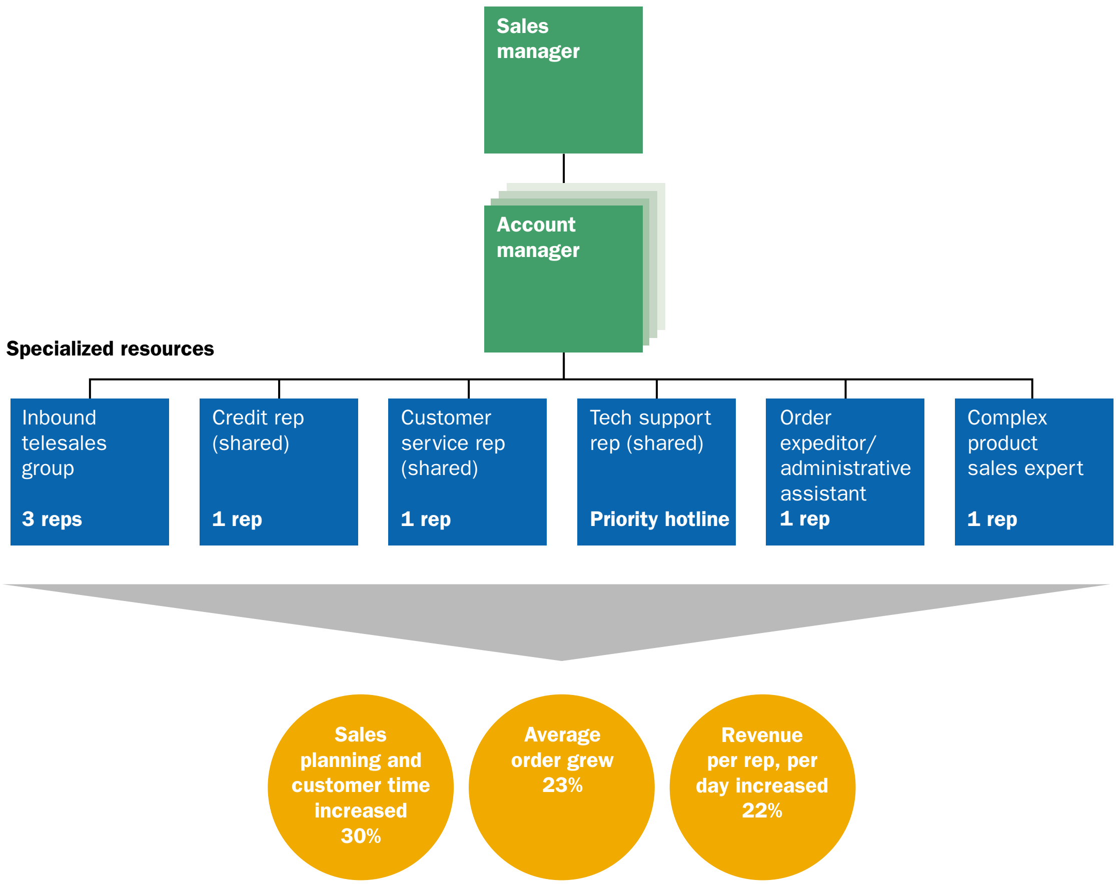
For example, the most effective method of capturing a high-end consultative sale would involve a face-to-face (FTF) sales rep capable of articulating service benefits, building executive-level relationships, bringing ideas to customers, and negotiating contracts. For superior account servicing and lead generation activities, however, telesales reps may be more efficient – they can cover more accounts than an FTF sales rep and have access to more current account information.

A chemicals distributor was able to increase contribution margin levels by 45 percent by using a multi-channel go-to-market model. This approach involved a 50 percent reduction in FTF sales rep utilization, an increased usage of "inside" sales reps, and the use of a Web-based service and procurement engine.

The multi-channel model also releases sales reps from non-revenue generating responsibilities such as administration, credit reviews, and meetings (see Exhibit 3). A 30 percent improvement in capacity is a typical result of offloading tasks from reps to other channels. Credit reps handle collection issues, an administrative pool handles scheduling and paperwork, and the customer service rep manages billing inquiries.

At a leading software company, sales reps were spending 60 percent of their time on nonsales activity such as contract paperwork and invoicing. The use of standardized contract management software and guidelines, along with the use of an administrative assistant, added 15 to 20 percent to each rep's selling time. This improvement generated $500,000 to $1 million in additional revenues per sales rep.

Exhibit 3 **Impact of Multi-Channel Task Specialization – High-Tech Company Example**



In the face of economic downturns, sales organizations must recognize a need to rapidly adjust their selling models and approaches in order to successfully impact their companies' bottom lines. Many organizations have found that increasing sales activity without a focused strategy is unproductive, often alienating customers and negatively impacting cost-effectiveness. As we have seen, best-practice companies leverage the MSE funnel to the sales process in order to mine the insights that can help sales organizations focus resources and tailor sales approaches on a segment-by-segment basis. By targeting critical bottlenecks to growth at the four high-impact stages of the sales funnel – and implementing carefully selected initiatives to address the bottlenecks – these companies build sales, reduce cost, and make a genuine impact on the bottom line.

Also see related White Paper call ***How to Improve Your Marketing Spending Effectiveness.***

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