Marketing & Sales Excellence in the Crisis

Reduce costs without jeopardizing sales generation capabilities

Chief Executives are having to prepare their companies for worst case scenarios and at the same time are gearing up to emerge in a strong position once the crisis has passed. Painful measures are already being taken in order to sustain business. Perhaps contrary to intuition and short-term pressures, this climate provides an excellent opportunity for forward-looking marketing and sales leaders to optimize their cost base, while at the same time increasing sales performance, thus paving the way for future market competitiveness. "Rigorous cost management across all functions" is an immediate need, especially for strong export orientated engineering and manufacturing companies whose order intakes are facing a steep decline with no likelihood of a short-term recovery. For marketing and sales executives, in particular, it is of paramount importance to successfully navigate the key challenge of how to reduce costs without jeopardizing sales generation capabilities in order to sustain and secure top-line results.

The key challenge

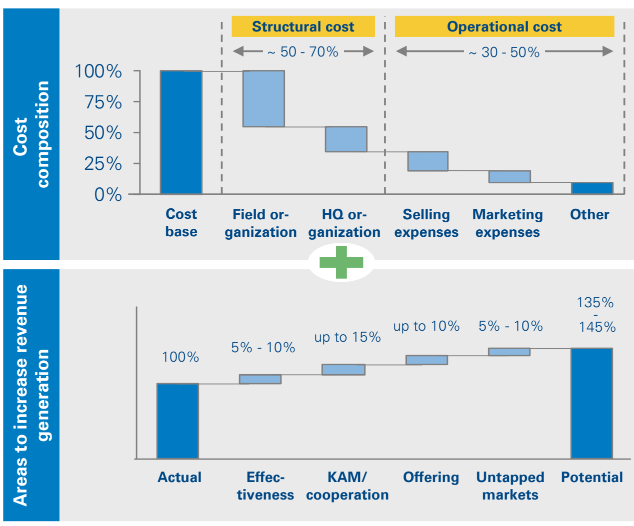
Central and local marketing and sales functions generally represent up to 20% of a company's total cost base and up to 30% of total staff. Marketing and sales executives must consider carefully where the necessary cuts are to be made – in structural costs, such as personnel and/or in operational costs, such as advertising. Any cost cutting measure must be evaluated according to its time to impact and its (negative) implication to front-end effectiveness. At the same time, executives need to motivate and focus their sales force in this difficult and hitherto uncharted environment.

Core issues to consider are:

- Which cost positions are essential for short-term sales generation?
- How is cost-cutting be counterbalanced with increased sales efficiency?
- How is immediate and sustainable sales potential to be identified?

Fundamental to answering these questions and achieving balanced decision-making, is the buy-in and alignment of both central and local stakeholders. In our experience this is quite often a stumbling block as both corporate and local marketing and sales organizations are, in effect, separate "fiefdoms" with separate budget accountability. However, in the current crisis resistance to unpopular measures tends to decrease. Undifferentiated and across-the-board cost cutting will weaken organizations for future sales; only a comprehensive approach that integrates both strategic (central) and operational (local) considerations will show how and where to effectively save costs while maintaining or improving sales generation capabilities (see figure 1).

Figure 1: Cost and revenue management



Source: Arthur D. Little

Stringent cost management

Cross-industry benchmarks show that approximately 50% to 70% of marketing and sales spending is taken up by central and local personnel costs which, in Europe, due to employment laws, cannot be reduced short-term. Therefore, it is essential that they are counterbalanced by efficiency improvement programs. However, the remainder of the budget constitutes selling, marketing and operational costs, e.g. advertising budgets or free application tests. To be effective, cost cutting needs to be based on a pragmatic audit which provides full cost transparency on all marketing and selling related cost positions, ranging from structural costs by functions (including sales back office, product management, marketing), task/capacity allocation to operational costs such as trade fair spending or market research budgets.

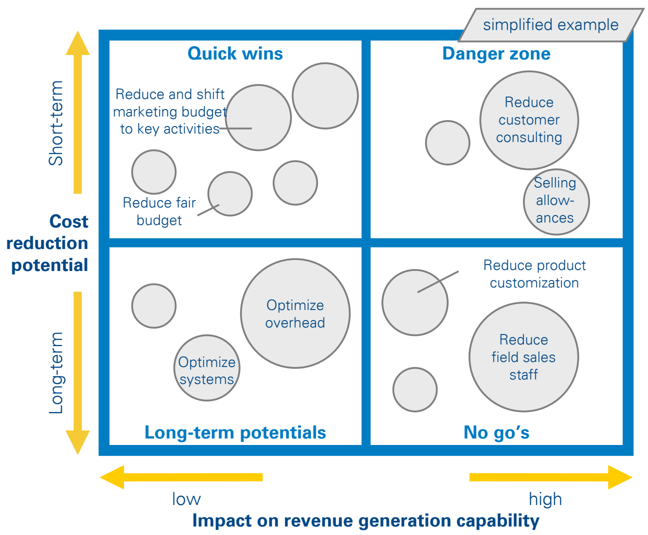
Identify and select those cost levers which have an immediate impact on cost savings. Clustering the measures in a cost revenue impact matrix (figure 2) enables marketing and sales executives to identify and manage the positive and negative impacts of potential cuts on the company's revenue generation capability. Any cost cutting measures with low impact on the company's front-end effectiveness should be taken immediately. Any measures with potential negative impact on revenue generation capability must be closely examined.

The selected measures must take into account a company's specific industry, customer requirements and anticipated competitor behavior. The following measures are generally recommended, focus however lies on a stringent planning and execution:

- Rethink staff roles and responsibilities – lay-off or re-focus on supporting customer acquisition
- Eliminate and reduce administrative tasks e.g. unnecessary reports, back-office tasks
- Promote top performers and offer incentives – increase sales force efficiency through learning
- Release low-performing staff
- Streamline customer interaction – focus efforts on A-customers with strong and immediate sales potential, rethink interaction with B and C customers
- Don't cut marketing and trade spending across-the-board – concentrate budget spending on the main customers, market segments and products
- Reduce unnecessary market research costs – focus on understanding key clients' directions/purchasing behavior and analyze competitors situations and moves
- Pass on cost measures to suppliers/vendors e.g. marketing agencies or research companies
- Reduce trade show spending – focus promotion activities on growing/winning accounts

In a recent ADL project, a leading industrial supplier of factory equipment discovered that approximately 40% of a sales engineer's capacity was consumed by operational order management: this included qualification of suppliers, scheduling production and fire-fighting. By streamlining the department into a customer orientated group and an order management group, located in the manufacturing department, redundancies were eliminated and tasks specialized. As a result cost savings of 12% were achieved while the overall productivity increased and customer interaction improved.

Figure 2: Cost revenue impact matrix



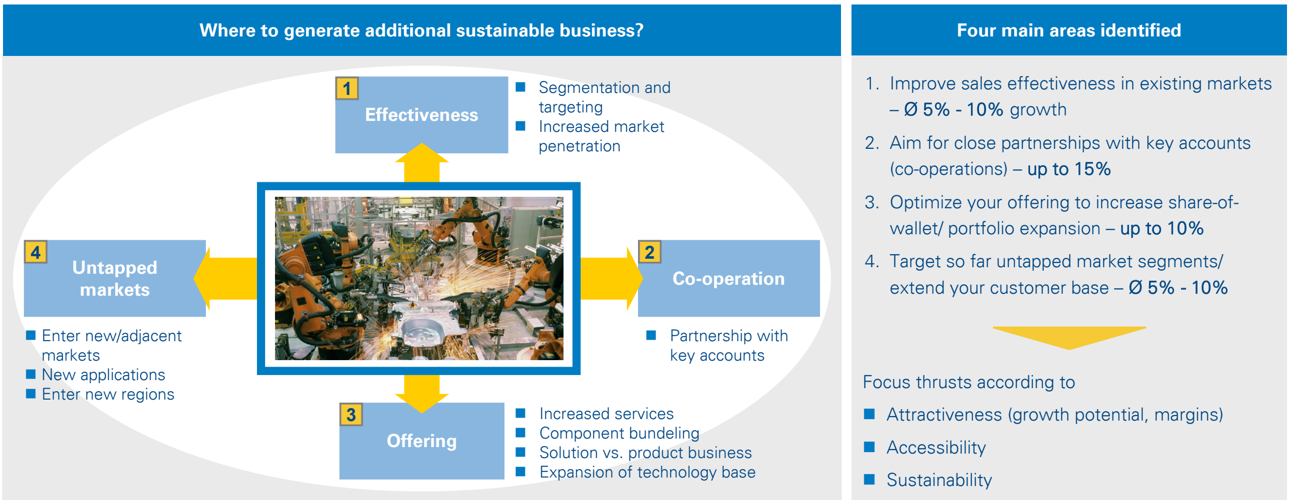
Source: Arthur D. Little

Implement the quantified measures with stringent process management without delay, focusing on obtaining quick-wins. It is essential to continuously monitor and review the effects of the chosen measures on the cost position and simultaneously, on revenue generation. Most important, however, are the management of the buy-in and a balanced contribution of both local and central marketing and sales units.

Where to push revenue generation

Managing the cost-base should not overpower the focus of marketing and sales during the economic crisis. Direct the resources towards the short-term high-potential customers and market segments and identify how and where to generate sales. The major challenge is to bridge the gap between generating volume to sustain the necessary capacity utilization and maximizing the contribution margin. Sales controlling and pricing/margin decisions are of the highest importance in order to enable sound decision making and top-line results. Hence, the key question for all executives is "where can additional sustainable sales be generated"?

Figure 3: Thrusts for additional revenue generation



Source: Arthur D. Little

The starting point for defending and sustaining revenue over the next six to 18 months is a clear understanding of current and future sources of revenues. Arthur D. Little's experiences show that there are four main areas which offer short-term wins – the identified options should then be assessed towards their attractiveness, accessibility and sustainability (see figure 3).

A packaging machinery company downsized its organization in a decreasing market segment; at the same time, the infrastructure was optimized, administrative tasks reduced and marketing spending cut. After conducting a thorough market analysis, the remaining staff focused on further product line penetration within existing key accounts and entry into adjacent, so-far untapped market segments. By training the sales force in consultative selling (emphasizing the operational cost benefits of the offering against competition through deployment of a TCO tool), in combination with pushing higher margin products as well as reducing service offering to B and C customers the remaining business grew profitably by 10%.

How to push revenue generation

Once the thrusts are selected there are six sometimes counter-intuitive and unconventional potential levers which help to successfully implement execution (see figure 4):

1. Leverage key account management and high potential customers/market segments

- Connect with the best clients in order to be in pole position once business starts picking up
- Start a program management in the meantime to improve the results of unprofitable customers and eliminate irredeemable accounts during the next upturn
- Target competition customers in attractive segments selectively by using customized offerings

2. Implement value selling

- Increase the customer focus of your sales force by training on consultative and solution selling
- Deploy Total Cost of Ownership (TCO) tools to decrease price sensitivity
- Evaluate alternative financing models to support your customer in his/her efforts to reduce cash out

3. Employ pricing/margin management

- Avoid price wars to sustain volumes, the long-term effect overpowers short-term gains
- Rethink product pricing – tailor the offering to meet customer needs and price accordingly
- Reduce costs selectively at high margin products to drive volume (price x volume trade-off)

4. Increase sales efficiency

- Eliminate administrative tasks and focus sales force towards identified quick-wins
- Deploy sales force on trade receivables to support liquidity needs
- Identify successes and best-practices across the entire organization and duplicate in other areas
- Recruit high performers from competition and support "hunters" and "door-openers"

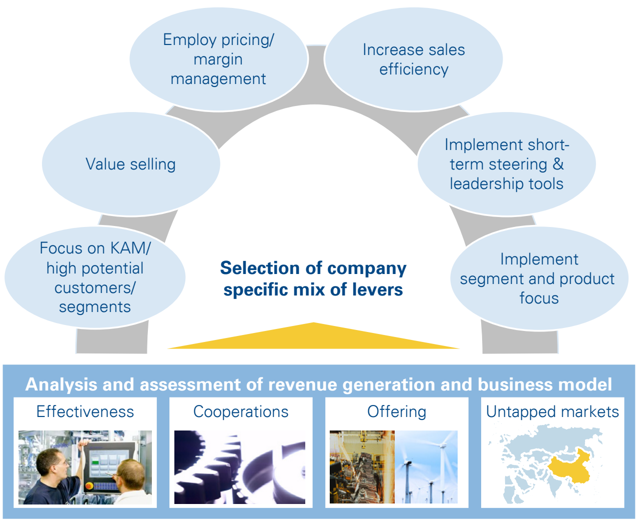
5. Implement steering and leadership tools to manage international sales resources

- Lead and manage with tight measurable program schedules and through KPIs
- Increase market intelligence through sales force to react quickly to competitive moves and changing market environment

6. Implement strong segment and product management functions with profit and loss responsibility

- Direct market segment management to support short-term potentials e.g. consultative selling or programs for new markets, to support field sales force effectively
- Empower product management to eliminate unnecessary functionalities and features (over-engineering) that increase production costs but which customers are not willing to pay for

Figure 4: Levers to push revenue generation



Source: Arthur D. Little

Conclusion

Whilst there is no "silver bullet" for coming through this crisis unscathed, Arthur D. Little's expertise in supporting companies in optimizing marketing and sales operations, shows that a balanced improvement program on both the cost and revenue generation side is needed. Important for executives is, while driving hard on the necessary cost-cutting measures and efficiency programs, to simultaneously motivate and guide their marketing and sales resources. Only organizations which act quickly and set a clear direction can realize their chance not only to optimize their cost position but also to emerge strengthened out of the crisis.

Arthur D. Little supports companies to set the right priorities and to consistently implement the necessary cost measures while not obstructing the future marketing power. In addition to the management of the short-term needs, Arthur D. Little's Marketing and Sales Excellence approach enables companies to develop go-to-market strategies including market segmentation, customer interaction strategies as well as optimization of organization structure, processes and marketing and sales operations.

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Arthur D. Little

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