Maximizing Sales and Marketing Performance

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GSP & Associates
Achieving Growth Sustained Profitability

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Maximizing Sales and Marketing Effort is an Imperative

According to published reports, sales and marketing costs equate to 15-35 percent of total corporate cost; when one compares that to 9 percent cost for direct labor for manufacturing industries, it is easy to recognize that the ability to leverage the investment in sales and marketing is a critical strategic capability. At a time when revenue and profit growth are critical needs, the CEO must have a clear understanding of the effectiveness of the organization's sales and marketing functions.

Dissatisfaction with marketing is often due to a perception that marketers do not take measurements seriously. Marketing often avoids involvement with measurement development and consequently the finance department is left alone to the best that they can. When this occurs, marketing can expect to be judged harshly by other managers using other criteria unless goals and performance measures are properly aligned. Furthermore personal credibility, and the credibility of the marketing function, will be eroded.

There is a common story amongst the marketing community that half of what is invested in marketing is a waste, we just can't tell which half. In reality, that comment may represent an understatement. Although most organizations would not like to admit it, they have little insight regarding what's working and what is not, or why this is true. Would their investments be better placed in a different mix of sales/marketing effort? The marketplace is complex, it is not a laboratory and there are near term and long-term considerations to contend with. Yet, to be competitive can organizations continue to make marketing budget decisions solely based on what we can afford or what we budgeted last year? Competitive advantage is seldom born of decisions that are driven by benchmarking last year. So what's the answer? Though each organization must find it's own way, the road to improving the productivity of sales and marketing investment and resources is paved with strategy and capabilities that bring the company closer to the customer. This is not a quick fix recipe for curing the competitive weaknesses of the organization but rather a logical evolution that will transform the performance of any organization that is willing to rally around the discipline and perspective of being customer centric.

If Sales and Marketing Effectiveness is the Answer, What's the Question?

Most organizations reference the maximization of shareholder value in their vision or mission statements. If this is what drives the organization, then it is reasonable that they should know what drives shareholder value. For the most part, research has linked shareholder value to the following characteristics:

- Historical performance and expectations regarding financial metrics such as:
  - Revenue growth
  - Average margins
  - Profit growth
  - Return on assets (ROA)
  - Cash flow
- Intangibles such as strategy, management team, risk, etc.

Cash flow is increasingly important because it reflects the health of the organization and its ability to meet obligations as well as invest in the business. Therefore, organizations seek to:

- Enhance cash flow
- Accelerate cash flow
- Reduce volatility and vulnerability
- Invest to enhance long-term value of the business

If shareholder value is the objective, then sales and marketing have a great deal of impact on the results because the performance of these functions drive both top and the bottom line results. Almost four decades ago, Peter Drucker observed that: "marketing is really not a separate function at all, it is the whole business seen from the point of view of its final result, that is from the customer's point of view." Obviously Drucker was alluding to the fact that the customer is the final arbitrator of performance and that satisfying the customer is the objective of the organization, not just the marketing function. Thus, Drucker was connecting the dots between shareholder value and managing the behavior of customers. Here we stand forty years later with sophisticated technologies to better understand and anticipate customer behavior but lack an appropriate operational strategy to exploit it.

Maximizing shareholder wealth implies an ability to maximize the investment in sales and marketing. This stands in sharp contrast to the typical budgeting processes that consist of either backing into a budget number that will yield the right profit figure or otherwise adjusting the historical rate of spend. All too often, these approaches result in arbitrary cost cutting later in the year if the profit levels are not high enough. To break out of this cycle, there must be a credible level of understanding and numerical sense of what drives customer behavior and ultimately the top line results. The better the organization understands the value needs of the customer and what it takes (physically and financially) to communicate and deliver against these needs, the closer it can get to maximizing effort and driving shareholder wealth. It is clear, from the description of the budget cycle that we are a long ways off from this capability, so how does one get started? Essentially, the organization needs to create a coherent plan that addresses the following issues or questions:

1. Define customer value needs and segment prospects and customers. This provides a sense of opportunity and vulnerability
2. Understand and document the ability of each element of the marketing mix to drive top line results versus its corresponding cost. This framework starts to form the basis for maximizing effort.
3. Identify metrics, processes, and/or policies that dilute the delivery of customer value or negatively impacts its profitability
4. Identify metrics and decision processes that will guide the development of an organizational ability to maximize sales and marketing effort.

The remainder of this paper will concentrate on describing a series of steps that can be taken to move the organization closer to maximizing sales and marketing performance.

Marketing As A Business Philosophy

According to a 1999 study published by the Marketing Science Institute, companies that base competitive strategy on a customer as opposed to a competitor orientation are significantly more successful.[1] Further, the effective use of metrics was also confirmed to correlate with success. Again, Drucker is credited for first observing that marketing is not the responsibility of a function but rather the responsibility of the entire organization; this sentiment is consistent with the idea that the organization's reason for being is to serve the customer. But why is such an intuitively appealing idea so alien to most organizations? The vast majority of organizations are organized along functional lines, affectionately referred to as silos. Each silo has a set of performance metrics, which are typically financial in nature. The objective is to meet revenue or volume levels and contain costs within budget (everyone including sales and marketing). Of course there are often quality and capacity criteria, but for the most part, functions tend to have internally focused agendas that drive them in directions not necessarily complementary toward each other or the customer. This situation may be reasonable effective when demand exceeds supply and where the ability to cost effectively scale mass production is the focus. However, in a competitive world where customers have choices, have easy access to information about those choices, and are not constrained by loyalties, then this internal focus can spell mediocrity at best and extinction at worst.

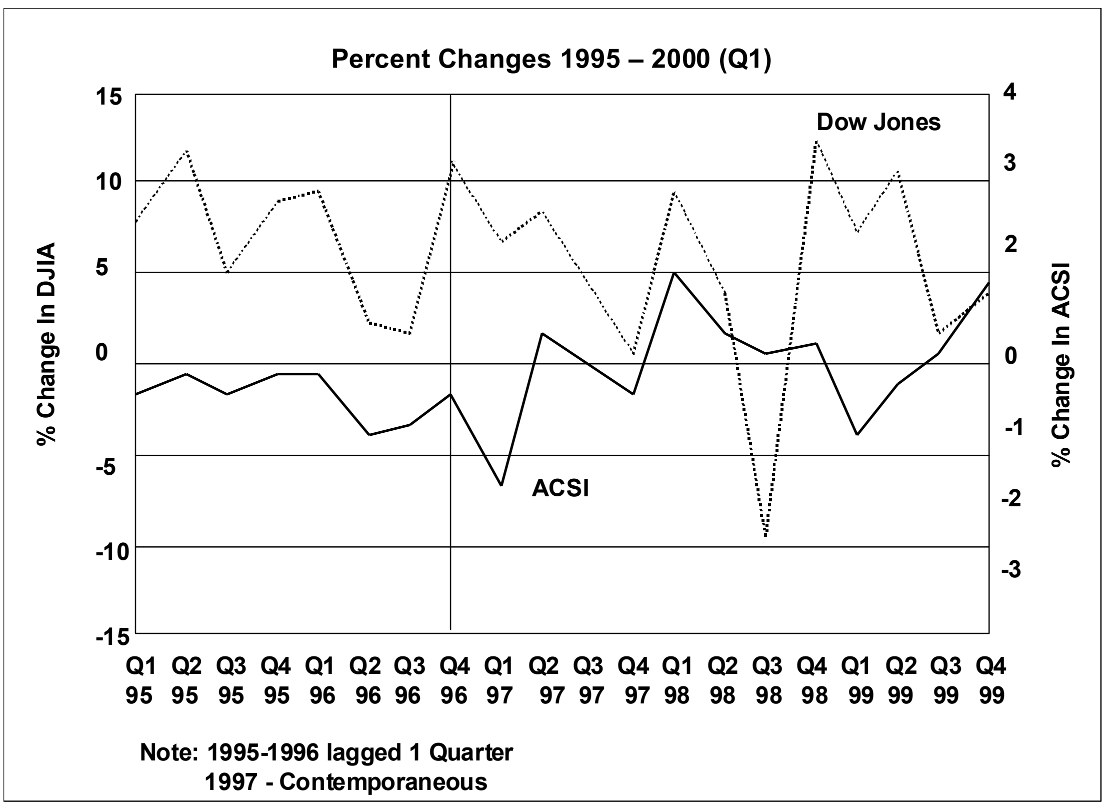


Figure 1 Percent Change in Dow Jones Versus Percent Change in ACSI

[1] Kokkinaki, Flora and Ambler, Tim, "Marketing Performance Assessment: An Exploratory Investigation into Current Practice and the Role of Firm Orientation, Marketing Science Institute Working Paper, 1999.

Although it is certainly reasonable to observe that the CRM movement has been over hyped, the presence of the Internet and its impact on behavior and attitudes cannot be denied. From a quality perspective, Figure 1 tracks a clear relationship between the American Customer Satisfaction Index (ACSI) and the Dow Jones. Other case studies and surveys basically reinforce the obvious, that customers want value, that they are interested in using the Internet to research options and in some case purchase on-line, and that **relevance** not loyalty is the customer relationship that needs to be sought. Success is this environment is a team sport; all functions have to rally around a common thread, but most organizations cannot find the end of the string and thereby pursue technology with the hope that it will create the desired focus. History has shown that technology without a corresponding strategy and commitment is likely to accentuate the issues and lead to further erosion.

An Operational Model: Unraveling The Ball of String

Defining and improving sales and marketing performance is more like a journey than a destination. In essence one can never arrive because the marketplace is ever evolving and therefore what is sought is a framework that helps the organization adapt and provides an on-going sense of effectiveness. Attacking the sales/marketing performance issue is like trying to unravel a ball of string; once you find the end it becomes easy…..but finding that end is the tough part. It is not the intention of this white paper to be totally prescriptive but rather to provide the reader with a perspective and a sense of the steps that are involved in this process. Some of the steps can be done in parallel and others may not be exactly in sequence due to a need to provide continuity of content as opposed to implementation detail. To facilitate the discussion we will use a graphical model, which will provide a sense of the relationship amongst the elements of creating an operational focus on customer behavior.

Figure 2 provides a very high-level description of the elements that are required to move an organization toward being customer driven or customer centric. Before discussing each element of this model, it should be emphasized that the organization has to start somewhere (ball of string analogy) therefore, at the beginning, the organization should start with what it can reasonably pull together in a short time and then work to refine each position based on the perceived cost/benefit of further refinement. In other words, the important thing is starting and maintaining an attitude of seeking refinement where refinement will make the greatest contribution, not refinement for the sake of precision.

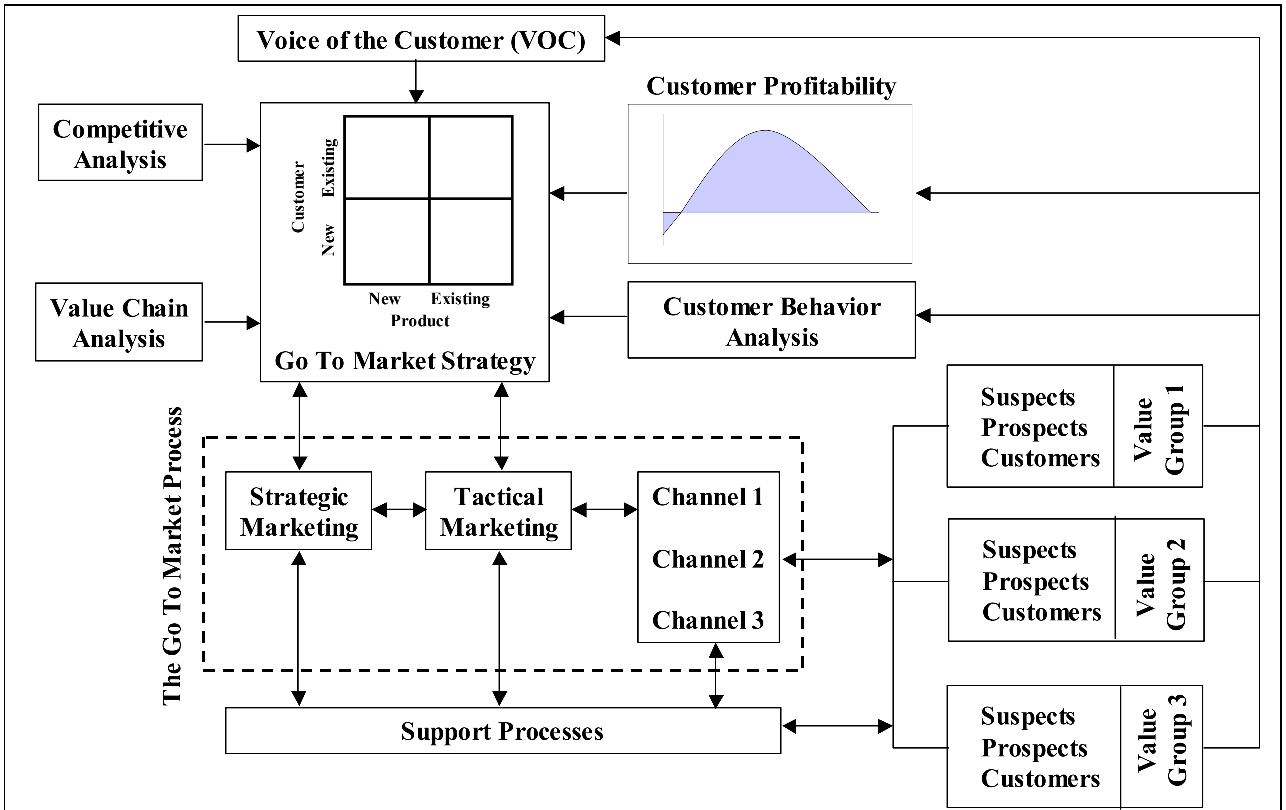


Figure 2 Framework For An Operational Model

1. **Value Segments**: The logical starting place is to brainstorm the value needs of your customers. This should include those met by your company, competitors, and those that are currently unmet. Create logical non-overlapping customer segment designations based on a definition of value needs. Then populate the segments based on your or knowledge of the customer. This segmentation can change with time; it is a starting place that gets the organization thinking in terms of delivering value.

2. **Customer Behavior:** The next step is to assemble what is known about customer behavior. This may require the creation of a database or it may be possible to do this initially thorough brainstorming. What is known or what can be derived regarding customer behavior. What are the signals of switching, do events/seasonality drive behavior, etc.? This data may suggest needs or opportunities. Many customer behaviors are event or calendar driven; this applies to the consumer and business-to-business transactions. For example, in the consumer market it is birthdays, holidays, births, deaths, etc. In the business market it is budget cycles, new product development, etc. What is known about customer switching? Are there events that make customers vulnerable to switching?

3. **Customer Profitability:** Most organizations do not have any real insight relative to who their most profitable customers are; the common assumption is that it is the largest customer from a volume standpoint, but this is often not the case. Why is this important? If the organization is going to focus on delivering customer value then it must have this profit perspective; without it, the company

is likely to pursue programs that will drive it to bankruptcy. Examples of this can be seen during the total quality movement where organizations pursued quality initiatives that customers did not value and would not pay for. It is also important to reiterate that the level of precision here should be refined over time. What is important is to start with a sense of profit contribution and improve the accuracy of this number over time.

4. **Customer Life Cycle:** This concept recognizes that customers go through a set of phases relative to purchasing behavior and profitability. When first acquired, the customer may have reduced purchase levels and may not be profitable. Over time, purchases increase and the customer may purchase other items and higher margin items that raise profitability. For various reasons the customer ultimately phases out and stops purchasing. This is the end of the cycle. The creation of a customer life cycle curve (see diagram) is a derived model based on many customers from that given value segment. At any point in time, a customer can be characterized in terms of their position in the cycle, this helps to better understand potential.

5. **Voice of the Customer (VOC):** The voice of the customer augments the value segment groupings in that the intention is to better understand the needs and perspective of the customer. Typically, the VOC attempts to better quantify these needs in terms of importance, level of improvement, and perhaps competitive impact including price implications. There are many formal methodologies for collecting and analyzing this data such as Quality Function Deployment (QFD). This type of refinement may not be available to start but clearly, the organization needs to formalize and refine the VOC.

6. **Competitive Analysis:** It is common to have drawers of data and copy relative to competitors but this does the organization very little good without some interpretation of the competitor's strategy, strengths, and targeting. How does this match with profitability? Are competitors attracting more profitable customers? Does the competition offer a critical value add? In most cases, it is valuable to assign a marketing person to each competitor so that accountability for this analysis can be established.

7. **Value Chain Analysis:** This analysis can be integrated into the VOC, but it is highlighted here to emphasize the need to understand how your efforts fit into the value add that your customer is providing and how the end user ultimately applies the product/service. This insight helps to identify opportunities for expanded value to the immediate customer or his customer. Typically, this type of action is taken to improve competitive position (or vulnerability) and increase margin. For example, if the customer has regulatory requirements to adhere to, is it possible to reduce paperwork or simplify the process?

8. **Go To Market Strategy:** The Go To Market Strategy integrates all of this input and articulates a plan that identifies priorities and goals for building the business. Typically this would include new products, new customer, new markets, and high level investment in sales and marketing.

9. **Go To Market Process:** The Go To Market Process consists of the following:
    - Strategic Marketing defines product, pricing, channels, targeting, budgets, etc.
    - Tactical Marketing includes the tactical aspects of strategic marketing such as defining campaigns, advertising placement, etc.
    - Channels include direct sales, e-commerce, indirect sales, etc. Channels are associated with the customer life cycle consisting of acquisition, service, retain, and optimize.

10. **Support Processes:** These processes, as the name implies, support the go to market process and may interface directly with the customer. For example, invoicing and lead management are support processes. These processes are critical to the operational model because if these processes are not aligned to the go to market process it will dilute the overall customer impact.

Most organizations do not have formalized operational and planning processes as defined above. It is more common for these processes to have evolved without consideration for alignment and delivery of value to customers. The issue is not so much the formality as it is to better understand the needs of these processes and the creation of cohesive effort than if left to chance or individual functions.

An Integrated Effort

The model presented in Figure 2 (as the title infers) provides a **framework** for an operational model, it does not produce, by itself, a customer centric strategy or focus. To achieve a customer focus, senior management must be convinced that a customer focus or driven organization is the only practical way to drive long term performance and shareholder wealth. Next there must be an organizational rallying point. Merely stating a desire to be customer centric does not make it so; the organization must find ways of institutionalizing this orientation. If each function independently makes this accommodation, then there is little change from today's budget process. The obvious rallying point for the organization (and sales/marketing performance) is the **Go To Market Process**, because it represents the positioning and delivery mechanism to the customer **as experienced by the customer**. Managing customer behavior implies managing the go to market process. Maximizing the go to market process leverages sales/marketing effectiveness and generates shareholder wealth. If this is true, then all functional performance and policy administration must be done in the context of its impact on the go to market process.

At this point, it would be natural to say: "well that sounds good but we have been down the path of reengineering, TQM, etc. and they all sounded good also, what makes this different?" The difference is really in the use of an integrated set of metrics that makes everyone accountable in the same context (financial and customer performance). If done correctly, CRM can provide a level of organizational alignment that will radically improve performance; but just like everything else that is worth pursuing, it does not come without a price. Figure 3 provides a high level schematic definition of the implications of being (or becoming customer centric). Similar to Drucker's assertions, marketing is an enterprise concern that integrates the efforts of marketing, sales, service, and back office to deliver value to the customer (at the center of the model). Integrating this effort requires the alignment of strategy, processes, people, technology, and metrics. When done correctly, these efforts all serve to leverage the customer life cycle elements of acquire, service, retain, and optimize.

So what does this really say? Strategy must be consistent across the organization and it must be customer centric. Processes must be designed to deliver profitable value add to customers and must be internally consistent with that purpose. People must be trained and motivated to support the strategy and needs of the customer. Metrics must reinforce the right behaviors and technology must provide the right tools and infrastructure to support the total effort.

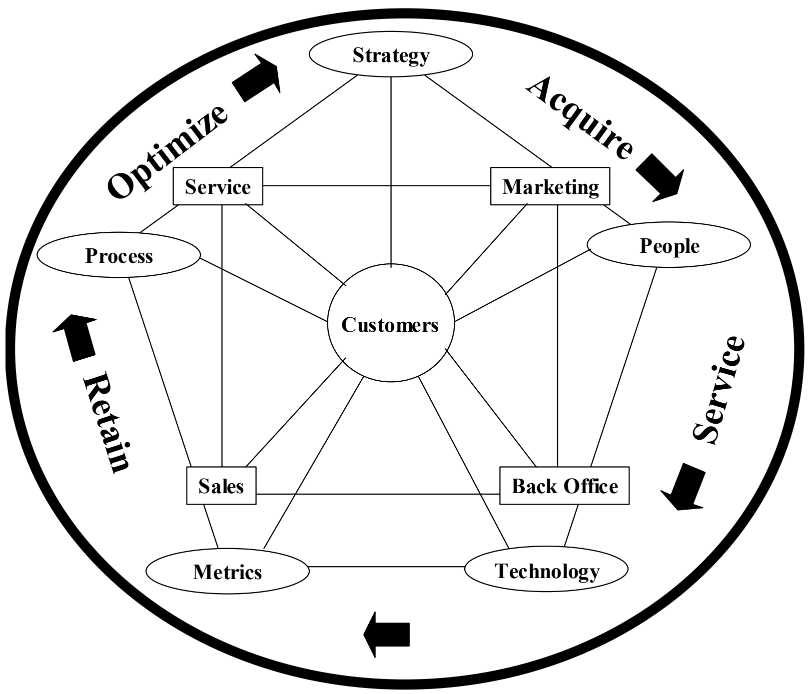


Figure 3 An Integrated Model of Customer Centricity

Completing The Operational Model

Consistent with the previous discussion, Figure 4 captures the multi-dimensional characteristics of the operational model. The strategy dimension suggests that being customer centric must emanate from a deep conviction of senior management that this orientation and only this orientation will provide the type of “compass” the organization needs to posses to thrive in the upcoming years. It should be noted that this direction must be reflected in the mission/vision statements of the company and there must be a firm definition of how progress will be measured (will be discussed in the metrics section). Each level of management must be responsible to ensure that the next level is completely on-board with this change and the behaviors that will be required for success. This must be a top down effort to be successful. When senior management commits to this strategic orientation, it must realize that it is also committing to other disciplines such as the management of major processes and continuous improvement. Without these disciplines, being customer centric is just so many words.

The next layer is the process level. There must be a general recognition that customer value is driven through processes and that the processes must be efficient and aligned to maximize the profitability of this value delivery. As the operational model suggests, the starting place is to define the go to market process. The go to market process embraces the marketing and channel efforts that position value to the customer and are an integral part of the delivery of value. To better understand this concept, one has to realize that every sales process has a corresponding **buy process**. The objective of the go to market process is to facilitate the buy process and to build a relationship with the customer such that the company will be able to retain that customer by maintaining an effective track record of relevance. By pursuing this orientation, the company should be able to leverage profitable growth and innovation. This success does not come easy or automatically; the organization must establish senior management ownership and accountability for these major processes. The company must commit to continuous improvement of these processes and invest in identifying the effectiveness of programs, products, and services. This discipline is critical to the ability to deliver customer value in a profitable manner. Further, the processes must be aligned so that they are complementary and that every one is pulling together (metrics). Process must have built in diagnostics so that one can improve the process over time and/or diagnose issues when the outputs need to be improved or changed.

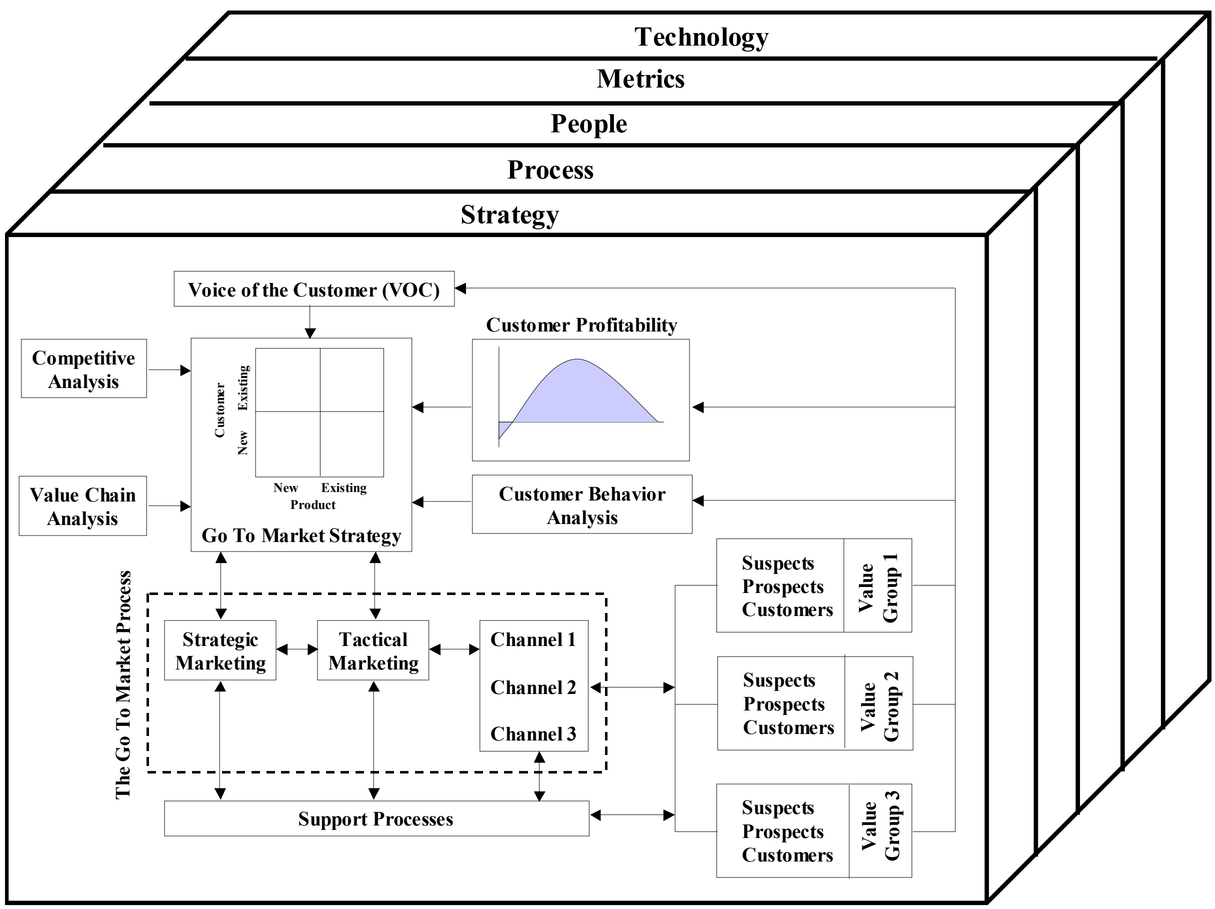


Figure 4 Components of the Operational Model

Although customer value is delivered through processes, it is often the people that create the value and make the process work. Therefore, the commitment to be customer centric by default has a component that commits the organization to being employee centric. The company must identify the competencies that are required to manage and perform the tasks associated with each process. This competencies perspective must carry over to hiring, training, motivation, and the development of people.

The metrics level really pervades all of the other levels and is separated only to provide emphasis. The heart of being customer centric is that it provides a profitable mechanism for impacting customer **behavior**. This characteristic is one that separates true customer centric companies from those who say they are. Customer centric companies track customer behavior metrics, which include but are not limited to:

- The cost of new customer acquisition
- Share of customer (or share of wallet)
- Frequency of purchase
- Average size of purchase
- Number of SKUs purchased
- Customer profit contribution
- Customer loyalty
- Customer satisfaction
- Customer retention

Hopefully, it should be clear that improvement of these metrics drives the shape of the customer life cycle curves, which in turn drives top and bottom line financial results. Metrics also influence employee behavior, so the right set of metrics can reinforce alignment of effort that leverages customer behaviors in a profitable manner that represents a competitive advantage. If this were not true then why bother?

The final level is technology. The role of technology is to leverage the other levels; therefore, these other levels have to be mapped out before defining the needs of the infrastructure to support it. This is in stark contrast to the tendency to purchase software before it is understood what the software needs to do and what these capabilities are worth to the organization? Further, one can understand (visualize) the whole solution, it is easier to map a phased implementation that makes sense to the organization and provides the right capabilities at the right time. Otherwise, the organization will probably implement technology on the basis of who is making the most noise or where the greatest perceived benefit is. The vulnerability is that this implementation approach may neglect key linkage points that have a stronger impact than any individual application. Understanding the trade-offs also places the organization in a better position to establish clear success metrics and a meaningful estimate of ROI.

Maximizing Sales and Marketing Performance

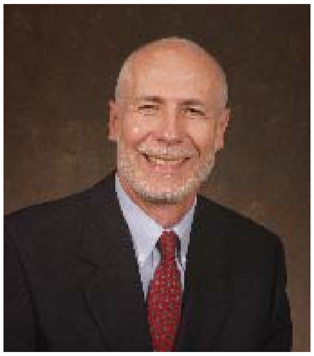
As defined at the beginning of this white paper, sales and marketing budgets historically are something that is “backed into” or derived based on historical metrics such as cost per dollar of revenue generated. How predictive can this type of approach be and what does it really say about performance? The answer is that if the market is essentially static, and if the marketing/sales mix remains unchanged then these estimates may have some relevance. However, how likely are these assumptions to be true and what does this say about the importance of marketing mix to alter this?

Customer relationship management moves the focus from macro ratios that do not reflect what’s working and what’s not to specific customer behavior metrics that reflect the effectiveness of impacting customer behaviors that drive financial results. A customer focus encourages a discipline around processes and the realization that employees create value and therefore are essential to current and future success; this in turn drives a willingness to invest in people. This discipline creates both a sense of accountability and purpose that drives competitive performance.

Although it is possible to identify a general methodology for making this translation, each organization must establish its own road map. Competitive advantage does not come from doing something the same as others. Each organization must own its approach and work through the issues and create its own set of expectations. It is only through this process that organizations will truly be able to be able to leverage its investment in sales and marketing resources.

About GSP & Associates

GSP & Associates, Inc. is a consultancy that is dedicated to helping user organizations to leverage their investment in CRM related tools. The company provides expertise in the strategic and operational application of CRM tools, sales tools, sales process modeling, and business case development and ROI analysis.



About The Author

Glen S. Petersen is an internationally recognized speaker, writer, practitioner, and thought leader in the Customer Relationship Management (CRM) and e-Business industries. Mr. Petersen has held senior level management positions with systems integration and end user organizations. As a visionary and early adopter of Sales Force Automation (SFA), in 1986 Mr. Petersen led one of the first successful national implementations of SFA in the United States. Realizing the tremendous future of this new technology, Mr. Petersen joined a SFA software start-up company in 1988 and had the pleasure of working with many of the pioneering organizations that deployed sales force automation at a time when most organizations were unaware of its existence. In 1991, Mr. Petersen left the vendor community to do consulting. This experience combined with his background in operational and strategic planning places Mr. Petersen in a unique position to advise and assist clients in this challenging area of change management and technology integration. During this period, Mr. Petersen has developed a number of proprietary facilitation techniques, which help organizations to better understand the potential of these technologies, and how to rally the organization around a single threaded, phased implementation approach. Prior to founding GSP & Associates, Mr. Petersen was Senior Vice President at ONE, Inc. and Ameridata, a $1.3B provider of hardware, software, and services. In these positions, Mr. Petersen sold and directed operational strategy engagements and helped major corporations articulate and justify their CRM and e-Business initiatives.

Mr. Petersen is the author of six books:

- *High-Impact Sales Force Automation: A Strategic Perspective*
- *CRMS: ROI & Results Measurement*
- *CRM Leadership and Alignment in a Customer Centric World*
- *ROI: Building the CRM Business Case*
- *CRM Best Practices: Self Assessment*
- Making CRM An Operational Reality

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