Is the Obvious the Answer?

Imagine the case of a distributor of processed raw materials - such as metals, plastics, paper or forest products specializing in a small but profitable product category and seeking new ways to grow after a generational leadership change. Assume that it has already pursued regional sales expansion and in considering to either expand its product range to become a full-line distributor or enter light manufacturing as a custom processor, management has chosen the latter. In doing so, this firm begins its migration away from its history as a trading house and towards being a value-added service center. Early in this journey the company experiences moderate growth in a stable market environment. Later, sales and profitability suffer as the industry comes under cyclical pressure, and managers lose confidence in the strategic transformation.

Has the company gone down the wrong path, saddling itself with capital equipment and operational staff previously ruled out as distractions? Not necessarily. Changing market conditions can expose poor visibility into customer needs, a symptom of more significant issues that can cause a business to suffer disproportionately even though its overall strategy is sensible.

How can this come about? Here are a few causes we have observed.

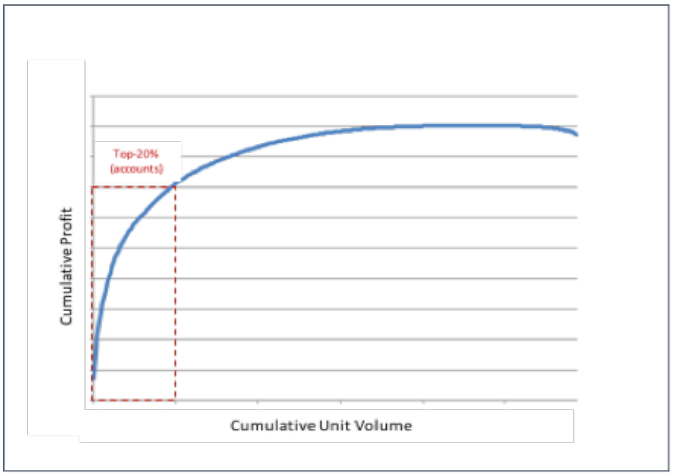
1. Organizational design and performance metrics across the enterprise that are only loosely aligned to the new strategy.
2. Legacy spending practices related to inventory that limit financial flexibility without advancing the plan and signal managerial ambivalence to the new direction.
3. Cultural push-back, including under-investment in commercial capabilities required to drive the new strategy.

Any of these factors can impede the necessary strategic adjustments for sustainable advancement in the marketplace. While they can lead to underperformance in several areas of the company, their impact on commercial operations can be the most critical.

We frequently see sales organizations that are too small, constrained by budget from making a sufficient number of visits to customer locations, and starved for field sales training. Organizations fitting this profile can also lack a marketing team capable of effectively analyzing market trends and customer segments necessary to strategic selling. Often in such situations Sales and Marketing teams fail to communicate and coordinate effectively with each other. Without the capability to formulate a unified,

factual viewpoint about the market environment, commercial endeavors can dissipate to tactical responses that erode revenue and margin.

In a case illustrated by the chart below, a company with a large number of customers made money from only a handful of them. Its top-5% of accounts generated 50% of income and 40% of unit volume, while the top-20% yielded 80% of profits and 60% of unit volume. The remaining 80% of accounts mostly represented churned dollars in small transactions, often at a breakeven price or with outright losses. Although these profitless customers represented activity with little accomplishment, all accounts in the company's portfolio were accorded the same level of service.



Marketing analytics are fundamental to sound programs for strategic selling. In this case, basic customer segmentation revealed that profitable accounts shared several common characteristics: they purchased the highest value substrates, ordered the highest proportion of value-added manufacturing steps, and were differentiated in their own end markets. Customers at the tail end of the scale also had common traits that were the inverse. Unfortunately, these distinctions were not understood well enough to have an impact on managerial decisions.

This company needed to develop better understanding about its customers' needs and strategies as a means to enlarging the population resembling the current top-20%. Upselling customers at the bend in the curve (the next best 20%) would be a good place to begin. The application of tools such as market maps to evaluate market adjacencies would uncover where and how to develop new customer relationships. In addition to higher revenue and profit potential, sharpened customer insight would liberate cash by enabling greater inventory selectivity. It would also improve opportunities for innovation and lead to increased efficiency on the production floor. Net, a higher investment in marketing and sales capabilities would deliver positive ROIs.

We have described a situation that occurs with frequency in B2B companies. While the obvious is not always the best answer, developing correct responses can be hindered by organizational skill gaps. We help companies discern the critical factors necessary to address such opportunities for higher rates of profitable growth.

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