

Sharpening Your Sales Edge for the Industrial Recovery

After years of being stalled, the industrial sector is moving forward and growing. Many manufacturing companies that have been in a defensive posture to protect share during the economic slowdown now have an opportunity to expand their sales and other core operations that were slashed to reduce expenses. But the impact of the last few years has reshaped the manufacturing and industrial industry, with some important changes particular to the Chinese market, creating a new landscape that may be deceptively different than the environment of just a few years ago.

There are a number of sales-related issues that executives need to address quickly as they begin retooling their organizations to address emerging market demands and to differentiate themselves from the competition. In many cases, this can be challenging because sales operations are often hardest hit during lean economic times, and the cutbacks are felt across the sales process: go-to-market strategies, lead generation, conversion and account growth.

In the increasingly important China market, there are some unique challenges, such as multiple customer segments with different selection criteria, different purchase processes and different behaviors. In addition, a group of domestic competitors with typically acceptable, but inferior quality products, sold at a lower price are forcing MNCs to alter their sales system and approach in the China market.

L.E.K. Consulting examines how certain organizations have addressed these issues during the recessionary economy, and offers three strategies to strengthen these areas and realign your sales operations as new market opportunities emerge. L.E.K. also outlines its framework for bolstering sales force effectiveness.

Strengthen Your Strategic Selling Focus

The Chinese industrials market is typically characterized by two segments; a quality segment with higher-priced products which historically has been populated by MNCs, and a value segment, which supplies cheaper products that are usually made by the domestic companies. In pressured economic times, conversations with customers tend to be much more focused on price than on product or service differences. Once price-based selling becomes the norm, it is difficult to refocus the value proposition to anything other than "low price." L.E.K. has identified four areas to target customers who are more likely to value (and pay for) your differentiated value proposition.

1. Re-examine Your Unique Selling Proposition (USP)

After an economic downturn, organizations can find that their USP is weakened or is no longer clearly communicated. Also, the competitive landscape and customer purchase criteria may have changed, which may make a company's USP less differentiated or, even worse, irrelevant. During the recovery, companies should revisit and refresh their USPs.

Update your customer-focused market research and reassess the competitive landscape to better differentiate your organization from competitors. A refreshed and relevant USP will position companies for margin expansion and profitable growth during the recovery.

For example, L.E.K. recently worked with an industrial equipment supplier to refine its USP and improve its sales force effectiveness. The client's products had initially captured significant market share in China, and were viewed by customers to be of better quality than the competition. However, significant customer research revealed that as customers became more

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cost focused, non-mining users believed that the local products' standards were becoming acceptable to their needs. While the company had just begun to lose market share in the non-mining sectors, continued losses would have the potential to alter the company's market position to become a predominantly mining equipment supplier. This would likely make it difficult to take advantage of the forecast market growth and would make the company highly exposed to one sector. By understanding how customers, purchasing criteria were shifting, L.E.K. was able to help our client actively seek to redefine its USP to address the new market requirements.

2. Prioritize Customer Segments

The relative attractiveness of different industrial customer segments may look quite different post-recession than they did pre-recession. For example, relatively cheap natural gas liquids in North America are driving growth in industrial segments in packaging and chemicals that rely on gas for energy or on gas liquids for feedstock. Coming out of a recession, companies can benefit by focusing on two questions:

- i. Which customer segments are experiencing the greatest growth and highest profitability?
- ii. Which customer segments will most highly value our USP?

Once customer segment priorities are clearly established, assess your commercial resources to ensure alignment. For example, there may be opportunities to optimize your approach to different customer segments based on how they value your USP. L.E.K. worked closely with a leading business services client to help it better serve its smaller accounts, which the company under-supported during the downturn due to sales resource reductions. Many smaller customers valued the client's offering (and the economics showed this), but found better service elsewhere. To help strengthen the company's position in this segment, L.E.K. developed a new sales coverage model that assigned existing sales resources to accounts more efficiently. We also identified key commercial functions that were understaffed and, with modest investments in new resources, enabled the client to address sales and margin opportunities more effectively.

3. Filter Strategic Sales Opportunities

As a company exits a period when "all revenue is good revenue," there is an opportunity to set selling priorities which focus on customer segments that highly value its USP. These priorities must be reflected in new business selling plans and in customer bid requests that pass initial qualifications and enter the pipeline. A filter either at the front of the RFP or bid pipeline will help to ensure that scarce resources are not wasted on low-value sales opportunities.

As an example, a sales force at an industrial packaging company spent a considerable amount of time developing proposals. In the hunt for revenue during the downturn, its sales force chased a lot of deals, which consumed significant internal sales and support resources. However, there was no firm framework to determine whether the company should pursue particular opportunities, and a case could always be made to pursue a particular account. To help the company enhance its sales efforts, L.E.K. worked closely with leaders from the sales organization and key support functions – marketing, operations and finance. We then helped to define the strategic sales criteria developing a filtering process which now guides their team. In addition to closely aligning sales with the company's go-to-market strategy, the company now has a much sharper focus on the right sales opportunities, and a much more efficient use of internal resources to capture them.

4. Focus on the Right Service & Product Mix

A market upswing is an ideal time to introduce new or enhanced products and services. However, new introductions frequently fail to achieve their sales numbers due to a lack of alignment with the selling effort. Sales force training is required, performance metrics and incentive plans need to be adjusted, and account plans often need to be reviewed for specific opportunities in order to penetrate target accounts with the new offerings. Coordinating this type of effort with the sales force can sometimes take a backseat to just launching a new product or service. But cutting such corners as a new product foundation can lead to long-term problems.

Redeploy Sales Efforts Outward

Sales representatives at one L.E.K. client spent 50-60% of their time focusing on administrative and operational issues – instead of direct selling activities – because sales support had been eliminated. How should companies address this lean staffing reality? Because many companies are hesitant to add significant staff during times of slow growth, L.E.K. offers two main alternatives:

1. Redefine Sales and Support Roles

During the recovery, companies should reprioritize the most important tasks, identifying steps that can be eliminated or reduced, and noting which roles are best suited to manage each responsibility. First, segment activities into sales, operational, and administrative work based on current activity volumes and how employees really spend their time. Then estimate resource levels for each activity group to determine the actual staffing requirements for each group. Also, revisit and update job descriptions

to ensure they reflect the new approach. Skills should be evaluated as part of the effort to confirm that the right employees are placed into the right roles. Additionally, training programs should be rekindled to support the new roles and responsibilities.

2. Reengineer Core Sales Processes

One way companies can overcome the reduction in sales support staff is by recalibrating their core sales processes to be more market-facing. A useful start is to work with sales reps and support staff to really understand what works well and where there are frustrations and inefficiencies. Often, the initial diagnostic effort can lead to reengineering targeted operations – such as proposal development or pipeline management – that have an immediate impact with only minimal effort and disruption. Some processes may need to be reworked altogether to better accommodate the current resource levels.

Some companies may consider this approach and entirely rethink their sales strategies. Recently, one manufacturer enlisted L.E.K. to find more effective ways to support its sales force amid company growth. After initial diagnostic work and discussions with sales reps and support staff, L.E.K. developed a new process to convert critical sales opportunities. Historically, the company used the same process for all opportunities, almost regardless of each opportunity's importance. We designed new processes that better scored sales opportunities by relative importance to

optimize limited resources and ensure that the right capabilities are deployed to improve the odds of winning.

An issue of particular importance to foreign companies operating in China through a local JV, is that sales functions typically leverage the local company's existing sales infrastructure. A recent study by L.E.K. found that our client's JV partner's sales team was smaller and less skilled than that of its competitors, and the team had no sales incentive policies. Foreign companies need to investigate whether JV partners' sales teams are suitable to their business by comparing them to local benchmarks. Foreign players should be aware that sales teams in China can typically have lower productivity metrics and higher sales staff to accounts ratios. Investments in such teams is often required in order to build relationships and grow sales due to different market norms and cultural dynamics in the sales process.

Reward Profitability, Not Just Volume

Companies emerging from a period of significant price discounting often find that selling price discipline must be reinforced in a variety of ways, including salesperson compensation. Introducing a profitability metric to the compensation calculation can quickly reorient the sales force away from price discounting. Yet, this compensation change can be challenging.

Figure 1
Sales Performance Metrics – Current and Future State Example

Metric Category	Current Sales Performance Metrics	Additional Future Sales Performance Metrics
Sales Rep Performance	<ul style="list-style-type: none"> Sales Sales Growth New Account Generation 	<ul style="list-style-type: none"> Contribution Margin Account Retention Market Penetration
Sales Activity	<ul style="list-style-type: none"> Sales in Pipeline by Stage Win Rates 	<ul style="list-style-type: none"> Sales Calls – Meetings and Calls by Type (new account, cross-sell, etc.) Travel Time
Sales Forecast	<ul style="list-style-type: none"> Monthly Sales Forecast 	<ul style="list-style-type: none"> No change in metrics but improved quality of forecasts due to other improvements
Customers	<ul style="list-style-type: none"> Quality Issues by Account 	<ul style="list-style-type: none"> Customer Satisfaction by Account Complaints
Sales Rep Training and Development	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> Sales Rep Training – successful completion of new sales skills, product and technical training programs Sales Rep Satisfaction – employee views on roles, incentives, support, etc.

Source: L.E.K. Consulting

Measuring the profit contribution can raise unexpected complexities. For example, if you rely on a gross margin metric, then you may incentivize salespeople to “give away” services whose costs are tracked below the gross profit line. Alternatively, if you rely on a more “all in” measure of customer profitability, you must inevitably allocate a variety of costs making the profitability metric more complex to implement.

One packaging industry company wrestled with this issue during a time when its markets were recovering. Its sales force remained focused on driving volume over price because the company continued to emphasize sales to fill up capacity. Incentive plans continued to reward sales reps for revenue growth but not profit growth. As a result, contribution margins varied widely.

L.E.K. worked with the company to understand the current approach to sales performance measurement – what was measured, how performance was tracked and shared, and how information was used to support decision making. We then helped our client devise a series of additional performance metrics that were better aligned with its sales and profit objectives (see Figure 1), bringing clarity to the overall selling effort. Incentive plans were also adjusted, which helped to bring the wide variance in contribution margins in line and led to overall margin improvement.

Adopting a Holistic Approach to Improve Sales Force Effectiveness

With the recovery gaining momentum, now is the time to rethink your sales operations and recalibrate your business accordingly. Latching onto new growth opportunities is contingent on having the right strategy and steering your sales teams away from the price-based levers used out of necessity across many industrial markets during the recession. Companies that were forced to dramatically restructure their operations by reducing manufacturing production and cutting operations now need to do more than just update their sales performance measurements and other tactical program elements. While addressing specific sales processes may yield some improvements, they likely won't address overall sales performance gaps in a meaningful way, and won't enable you to compete effectively with businesses that are realigning their sales operations and tuning each point in the sales cycle accordingly. In these cases, a more holistic approach to sales force improvement may be required to capture new opportunities and remain competitive.

Such an approach needs to be consistent with the overall strategy of the business. In the China industrials market, firms can typically be classified as one of three types. Market creators are the best-in-class producers that will actively search for new product uses and provide strong technical support in order to maintain a higher price. Market followers, who are often smaller MNCs, will seek to use a price advantage on a good quality product. These companies' sales divisions are well trained and staffed, but will offer less technical support to customers than the market creator firms. Price destroyers – the last group – will try to change the product into a commodity and offer it at the lowest price. They will often use a distributor and offer no ongoing support. After analyzing the forecast market growth, management and sales teams should be clear on, and ensure consistency in their ‘go-to-market’ strategy.

The L.E.K. Framework for Sales Force Effectiveness

Improving the effectiveness of a sales force can quickly accelerate revenues and profits during an economic recovery. There are often hidden opportunities to increase selling time and improve sales win rates. L.E.K. takes a holistic view of the sales function to identify and realize sustainable performance improvement opportunities in two key areas:

1. Sales Process and Management Improvements

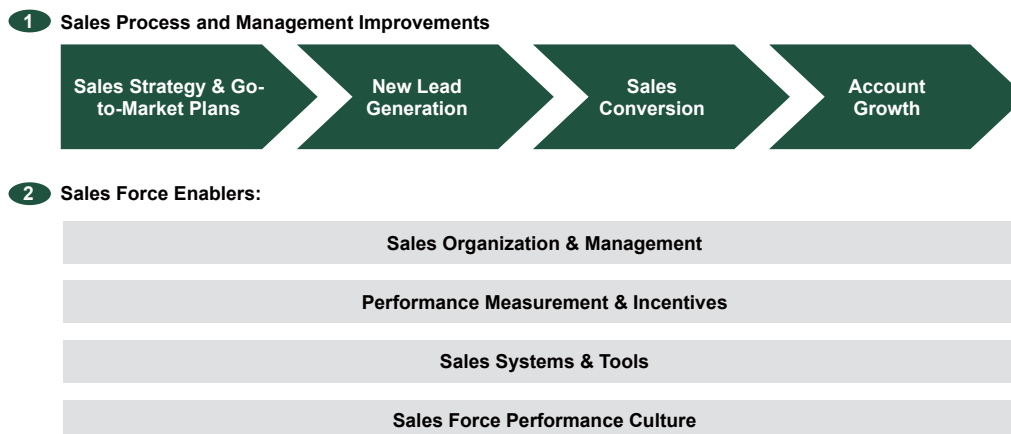
Sales processes can break down in a number of areas that may appear minor when viewed in isolation, but collectively can impose a significant drag on an organization's growth trajectory. L.E.K. addresses common challenges such as poor prioritization of target markets, trouble separating high- and low-quality sales leads, incorporating customer feedback, and using a “one-size-fits-all” approach to vastly different sales opportunities. Addressing these issues in a strategy-driven, results-oriented process can super-charge commercial organizations and have a significant cumulative impact on sales.

2. Sales Force Enablers

L.E.K. helps to develop a structure and support system across the company to optimize sales team effectiveness. Based on our experience, we work with clients to define and implement sales management processes, performance measurement and incentive frameworks, systems and tools, and help to instill a performance culture that provides a foundation for successful and high-performing sales teams.

Figure 2

Sales Force Effectiveness: The L.E.K. Framework



Source: L.E.K. Consulting

L.E.K. Can Help Your Business in China

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and analytical rigor to help clients solve their most critical business problems. Founded 30 years ago, L.E.K. employs more than 1,000 professionals in 22 offices across Europe, the Americas and Asia-Pacific. L.E.K.'s China

practice was established in 1998 with offices in Shanghai and Beijing.

L.E.K. helps business leaders consistently make better decisions, deliver improved business performance and create greater shareholder returns. L.E.K.'s comprehensive range of services can assist MNCs facing challenges with operations or strategy in China.

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