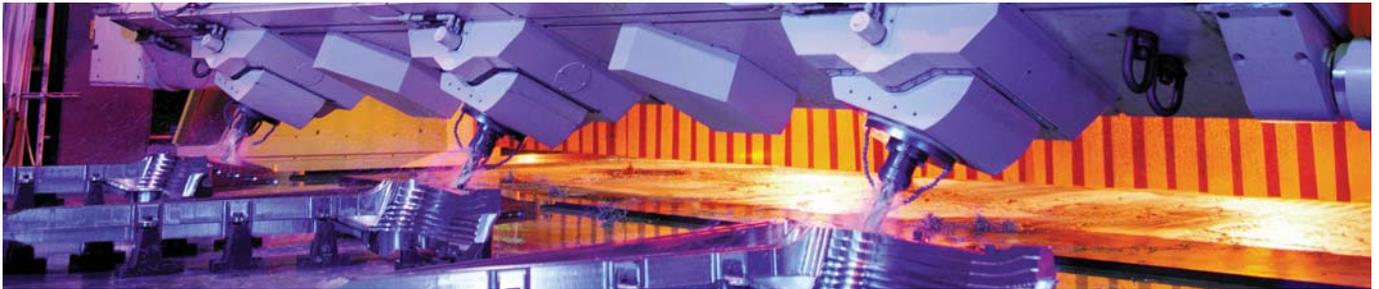


# Total Market Orientation

*Benchmarking study reveals key levers underpinning marketing and sales excellence*



Arthur D. Little and the Leipzig Graduate School of Management recently undertook a cross-industry benchmarking study to identify the key levers to achieving marketing and sales excellence. Over the last 2 years companies have focused on cutting costs/downsizing and fueling idle production capacity, often entailing price reductions or extended payment terms. Now, with the first signs of an economic recovery (with Asia as growth driver), executives need to 'gear up' to be able to take advantage of the increasing opportunities now presented, albeit at significantly reduced pre-crisis levels. The study finds that the engineering, manufacturing, and high-tech sectors have huge untapped potential for improving their performance across all categories that contribute to excellence in marketing and sales.

## The study

The study was designed to generate a cross-industry benchmark of excellence in marketing and sales performance and to identify the key levers that underpin it. With this topic now at the forefront of most global executives' agendas, the study, was rolled out world wide to engineering and manufacturing companies

The quality and efficiency of marketing and sales performance can be identified according to four performance categories (see figure 1):

- Effective use of business intelligence to gain the desired level of transparency to be able to successfully segment target markets
- The quality and consistency of a company's marketing and sales strategy and its execution
- The formulation of a sustainable value proposition and the customization of the marketing mix (4 Ps) for each individual segment
- The company's operational and organizational structure

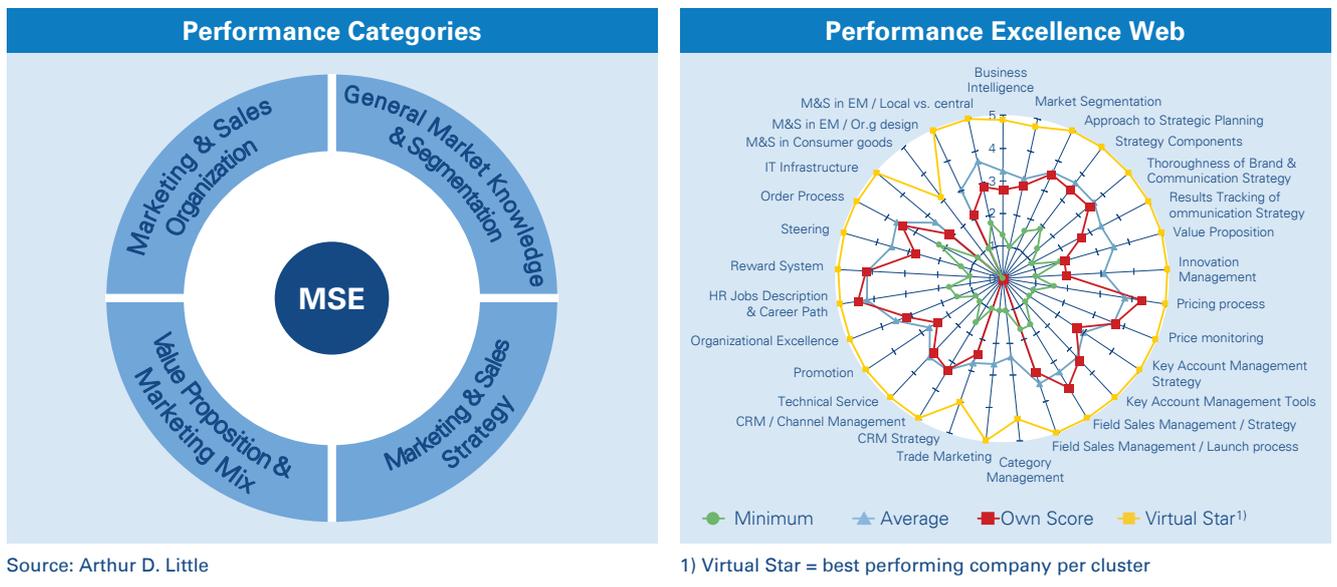
## Findings and key levers

Companies that achieved excellence in marketing and sales applied a Total Market Orientation approach ("TMO") to their marketing and sales management. While the majority of participants realized the need to change from a product and technology orientation towards a TMO approach, to date, the transition has proved difficult due to traditional and entrenched behavior patterns. Sporadic and uncoordinated efforts, such as implementing market segment management, are often unsuccessful, as they are precisely that: sporadic and uncoordinated, and often lack necessary stakeholder buy-in. Study top-performers achieved 75% of the maximum score, but surprisingly over two-thirds showed substantial improvement potential in one or more performance categories with a quarter of companies achieving less than 50% of the maximum score.

There are three essential elements in achieving effective and successful market operations:

- First, maximize the use of an all-embracing market intelligence to identify and segment relevant target markets in an unbiased way. This enables management to define an accurate marketing and sales strategy that reflects the individual needs and requirements of their various target markets.

Figure 1. Marketing & Sales Excellence (MSE) benchmarking study



- Second, companies need a compelling value proposition in order to satisfy the individual demands of different markets and customer segments. Each must be supported by a customized application of the various elements of the marketing mix. The study finds that the Product and Place elements of the marketing mix offer the highest potential for improvements.
- Third, a company's operational and organizational structure must help rather than hinder the effective execution of its chosen market strategy. Particular care should be taken when defining central vs. local roles and responsibilities. Sales support processes and systems should be pragmatic and enable effective field sales steering.

### Successful segmentation and strategy execution

A disregard of the impact of an all-embracing market intelligence will severely hinder successful market operations. While business intelligence is given high importance to support decision-making and to direct the sales force towards attractive market segments and customers, an alarming 60% of study participants failed to consolidate their information into an up-to-date, comprehensive tool for management to grow revenue. These businesses are thus unable to successfully achieve segmentation or define the necessary segment-specific value propositions or product offering (see figure 2). This is an absurd situation as most companies commit considerable resources and systems to gather relevant data. Improving the quality of business intelligence and making effective use of its findings is not only a powerful tool for identifying market segment potential, but is also essential to support top-level strategic decisions, such as product portfolio planning or investment in regional production capacities.

*A leading industrial supplier focused marketing efforts around its technological leadership in existing markets and was confronted with competitors gaining market share in emerging segments, simply by not having the required transparency and decision basis to be able to shift resources and direction towards future revenue potential. To remedy the situation, the company reassessed its segmentation, integrated all available information from its highly knowledgeable workforce and analyzed market drivers and competition in a completely unbiased way. Deep-dive industry and market profiles were subsequently developed to enable management to decide on future market segment engagement, portfolio decisions and go-to-market strategies. Today, the company maximizes its business potential, not only by entering new segments but also by growing its share in markets which were previously thought to be fully exploited. The results of the segmentation also enabled corporate management to better understand and direct local sales units.*

Once a strategy is defined, its execution must be anchored cross-functionally within the organization. Only 50% of study participants claimed to be adequately supported by their functional colleagues e.g. R&D or service departments, when executing strategy. The fundamental challenge is to balance long-term strategy with the tendency to 'make a quick buck' in order to meet immediate sales targets. Successful companies separate their qualitative and quantitative strategy elements to

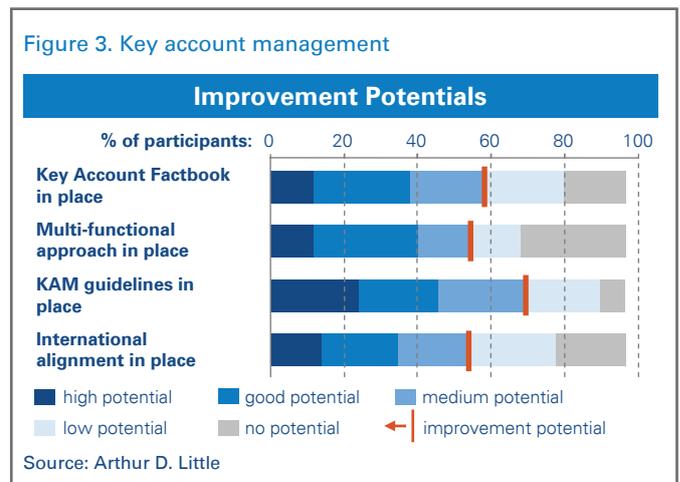
avoid this seeming conflict and to ensure that local sales forces have enough freedom to pursue their short-term targets. To balance this successfully, variable incentives, on average 30% of the sales force's total remuneration, should include not only short-term top-line but also bottom-line and strategic goals such as deal margins, cross-selling performance and long-term business acquisition.

### Compelling value propositions

Whilst most study participants recognize the importance of defining segment strategies, a disconcerting two-thirds do not have the necessary segment-specific value propositions in place to enable successful strategy execution. To overcome this problem, all elements of the marketing mix have to be applied in a consistent and coordinated way with a clear program and direction that can be rolled-out to support local sales units. While most companies manage the elements of Pricing and Promotion well, potential for improvement is mainly to be found in the Product and Place elements of the marketing mix.

### Product

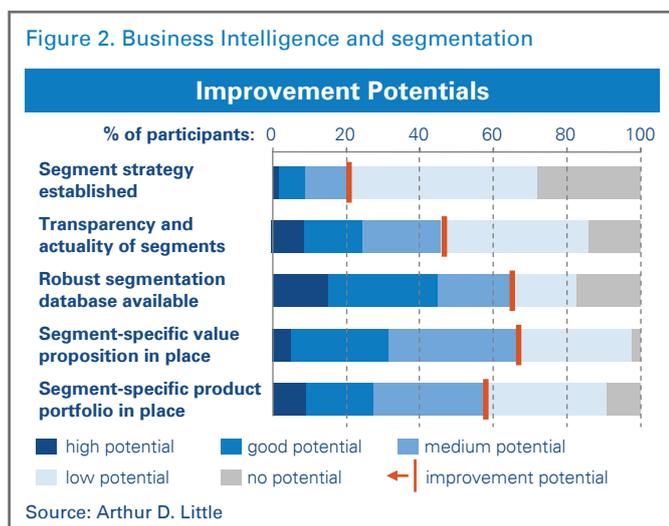
Product portfolio planning is still driven from a technological perspective. This is unsurprising, given that 75% of study participants claim to follow either a quality or niche strategy, and resource allocation in product development is strongly influenced by R&D departments. Winning companies, however, have broken with these traditional behavior patterns and have established a TMO approach that reduces over-engineering without compromising the "technological and qualitative DNA" upon which the success of European technology leaders has always been based. Specific measures for success include, but are not limited to: forming product management teams; incorporating both technical and commercial people with a clear mission to overcome cross-functional boundaries, or the localization of R&D to respond to local requirements.



### Place

Make full use of key account management. Although most companies claim to have an established key account management function, they rely solely on the individual qualities of their nominated key account managers and fail to support them with the necessary processes and tools to be fully effective. An additional obstacle is the age-old dispute of who to credit with achieved sales volumes and how to compensate local sales units for their customer development or service efforts (see figure 3). Key account managers should be process facilitators. This will break the traditional "one-to-one customer ownership" situation and allow an "orchestration" of experts by involving appropriate resources and competences. The selection of key accounts should not be restricted to the largest customers but also include those which have a high strategic impact on, for example, entering new segments with pilot customers or joint development of new product solutions.

*A machinery supplier implemented a central key account management function to increase both its position with major customers and to realize strategic geographic objectives. Dedicated teams were formed at the customers' primary locations with responsibility for all international sales processes, such as volume pricing, service level agreements and joint product development. "Shadow-sales" incentives were given to local sales units supporting deals and servicing equipment so as to achieve local buy-in and create a win-win situation for the entire company. As a result, business increased significantly, new products were developed for international markets with strong customer input and sales processes were simplified.*



### Optimize operational and organizational structures

The study finds, that operational and organizational structures are not always designed to facilitate the execution of the marketing and sales strategy. They are often based on a strong product/technology focus and are designed around personalities. Another problem facing companies which have grown from a regional basis to an international one, is that the organizational set-up has not kept pace with the company's development. Businesses now have the opportunity to make adjustments to their organizations to achieve a more market-orientated set-up, by establishing either a geographic, segment or channel approach. The new set-up should be based on the results of the market segmentation, defined strategy and value proposition and not be compromised. Particular focus should be given to the roles and responsibilities of the corporate set-up to avoid over-administration and to empower local sales-force while maintaining central authority as necessary.

All study participants identified considerable potential to improve sales steering and support by implementing well-functioning processes and systems. Often these tasks are allocated to middle-management, who in addition to their daily marketing and sales tasks, cannot give sufficient attention to this often tedious but highly influential work. Companies that have optimized their marketing and sales operations have invested in dedicated resources to manage process optimization (as a rule of thumb, one person per €200 million turnover) within their market organization. The objectives of these resources are to support management, e.g. by professionalizing sales IT, order processes, or CRM systems and providing the necessary compliance and control tools to effectively steer marketing and sales operations.

### Summary

Most companies have enormous, untapped potential to grow business by adopting a Total Market Orientation approach, thereby achieving marketing and sales excellence. However, changes need to be implemented consistently and must have all the necessary stakeholder buy-in. Only then can companies maximize their revenue potential in this uncertain economic climate and be well positioned to successfully compete in the post-crises era.

Arthur D. Little's Marketing and Sales Excellence solution supports companies in identifying levers to improve performance and is based upon a broad experience of helping customers to manage the required changes within their market organizations.

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