



THE BOSTON CONSULTING GROUP

THE GO-TO-MARKET REVOLUTION

A GROWTH ZEALOT'S GUIDE
TO COMMERCIAL TRANSFORMATION





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INTRODUCTION

THE GROWTH REVOLUTION HIDING IN MARKETING, SALES, AND PRICING

WHETHER YOU ASK A COMPANY'S CEO or its investors, they'll likely identify revenue growth as the single biggest driver of corporate profit and shareholder value.

Over the long term, revenue growth powers 75 percent of total shareholder return (TSR) for the upper-quartile value creators of the S&P 500. Even in the short term, growth accounts for nearly a third of TSR for these outperformers—double the boost from improving margins or cash flow. A growing business also empowers employees, attracts top talent, and helps fund expansion, transformation, and more growth.

Growth is an imperative. But it needs to be *profitable* growth—and that is not a given.

In the recent era of uncertainty and financial constraint, many companies have focused on efficiency. They have energetically cut costs, even in the “go-to-market” commercial functions crucial to driving revenue—sales, marketing, pricing, branding, and customer insight. These companies have achieved productivity gains, but they've reached the point of diminishing returns. We're learning again that we can't cut our way to growth.

A small set of successful companies are taking a different path. They are transforming their commercial functions and capabilities to create an engine of short-term revenue growth and long-term profit. They are doing so with little risk. These near-term victories are “self-funding” the creation of strategic capabilities.

These leading companies are taking advantage of what The Boston Consulting Group calls the “Go-to-Market Revolution.”

The Go-to-Market Revolution is a wave of technological and customer-driven change that is transforming the level of sophistication with which

companies deploy their commercial capabilities. This new era hasn't altered the fundamentals required for go-to-market excellence, but it is creating new possibilities. It is taking what is now possible—the current state of the art in commercial functions—to the next level.

Three tides of deep-rooted change are driving the revolution. The first is the dramatic shift, in almost every industry, of what BCG calls *customer pathways*—the ways customers learn and communicate about products and services on the path toward a purchase. Second, technology and advanced analytics are providing new tools for sales and pricing teams, marketers, and researchers. Third and finally, companies navigate a globalizing world that requires most of them to compete in new markets, often against unfamiliar rivals. (See the sidebar “A Revolution Driven by Three Tides of Change.”)

A REVOLUTION DRIVEN BY THREE TIDES OF CHANGE

The rich opportunities—and the perils of failing to act—emerge in the details of the three historic and concurrent tides of change driving the Go-to-Market Revolution.

Customer Pathways

The first tide is the rapid recent evolution of what BCG calls customer pathways. The ways consumers learn about and buy products have shifted dramatically and quickly, triggered by changes in technology, communications, and media.

The media once presented a landscape of force-fed information, dominated in the U.S. by the three major television networks, radio, billboards, and a handful of print publications. That has evolved into a customer-driven universe of Internet connectivity, Web searches, cable channels,

peer-review marketing, and mobile devices and apps.

Consider some specific examples of disruption and change driven by the shift in customer pathways:

- The insurance and travel industries have shifted almost radically from agency-driven channels to online in less than a decade.
- The great majority of today's purchases of durable goods are researched online before customers buy.
- Peer-review customer ratings are posted online for nearly every consumer product in the world.
- Mobile devices enable location-specific shopping—and marketing.

A REVOLUTION DRIVEN BY THREE TIDES OF CHANGE

(continued)

- Google users now conduct more than 115 billion searches a month, creating personal search histories that determine the customized ads that Google's algorithms serve them. As a result, Google's ad revenues now surpass those of all U.S. print publications combined.

The customer-pathway revolution has affected every industry—across both the consumer and business-to-business sectors. In the new environment, developing deep customer understanding and a consumer-centric view is the bedrock of success.

It is a more transparent world. Customer trust is a critical source of sustained competitive advantage, and it needs to be managed as a line activity. Brands must be backed by high-quality products and authentic corporate missions. Marketing teams must be capable of managing greater personalization and faster feedback loops.

Advanced Data and Analytics

The second driver of change could be called the go-to-market arsenal. It is the rapid and transformative evolution of “smart” data, advanced analytics and modeling, and other tools capable of increasingly sophisticated approaches in

segmenting and analyzing information and reaching customers. The data revolution has transformed business sectors, from retail to financial services. For example, one vehicle company in India was able to map more than 95 percent of all its potential customers in the country—who bought what and where—in less than three months.

The cost of capturing, storing, and rendering data into decisions is falling rapidly. Increasingly, companies are leasing space in the cloud—using services like Amazon's Redshift—as the cost per terabyte plunges. Cheap and effective data manipulation is leveling the playing field for smaller companies. It is revolutionizing sales force deployment, customer segmentation, product promotion, and return on marketing investment.

Consider one example: In times of slow growth, successful companies satisfy the specific needs of each customer. By catering to much smaller segments, through mining data, companies can discover hidden pockets of growth in richly diverse markets.

The concept of segmenting markets by geography or customer type has been around for decades. What's

A REVOLUTION DRIVEN BY THREE TIDES OF CHANGE

(continued)

different now is that digital and mobile technologies allow access and analysis of enormous quantities of sales and marketing information at a more microscopic level than ever before. Companies can quickly and inexpensively gather data from the field without an army of IT specialists and data experts.

One consumer goods company, for example, hired 4,000 part-timers to input on their Android phones the sales and retail data from hundreds of thousands of retail outlets in Southeast Asia. The company then carved an area it had treated as two large regions into more than 1,500 segments. Deploying the data with mobile sales-force tools enabled incremental growth of more than 10 percent.

Global and Emerging Markets

The final driver of the Go-to-Market Revolution is globalization, which creates two fundamental commercial challenges.

First, globalization has changed the competitive landscape in every market. The rise of globalization has opened labor markets and expanded offshore production, resulting in lower product costs in developed countries even as it destabilized brands and prices. Globalization is also ushering foreign competitors to

the doorstep of domestic businesses. It is shortening product cycles and speeding shifts in consumer tastes. Go-to-market strategies need to adapt to these dynamic market conditions.

Second, globalization in emerging economies has been accompanied by rapidly expanding wealth. Consequently, emerging markets represent a huge source of growth. The challenge is this: most companies have commercial capabilities in emerging economies that are less sophisticated than those in established markets. Accurate data can be scarce, rendering marketing ROI calculations difficult. Distribution channels are a mix of modern options—such as mobile—and Old World.

And the recipe for commercial success differs significantly by country. Winning in India and China may require fundamentally divergent approaches. To succeed, companies must create emerging-market commercial capabilities that are as sophisticated and promising as the growth opportunity.

The resulting shifts are profound, and they've accelerated in the past couple of years. As one business leader put it: "If you are doing things the same way you did them three years ago, you're almost certainly doing something wrong."

The three tides of change have contributed to the disruption and heightened competitive pressures that affect virtually every global industry today. At the same time, they have bred a new and dynamic commercial environment. For business leaders with ambition and foresight, the Go-to-Market Revolution offers a multitude of fresh opportunities to attract and engage customers and to drive growth and profitability.

A Self-Funding Go-to-Market Transformation

A go-to-market transformation aggressively retools a company's commercial functions—sales, marketing, pricing, branding, and customer insight—to exploit the new possibilities while navigating a fast-moving landscape. It adapts processes to changing customer pathways and needs, prepares the company to face new global markets and competitors, and arms its go-to-market teams with the latest and most effective technology.

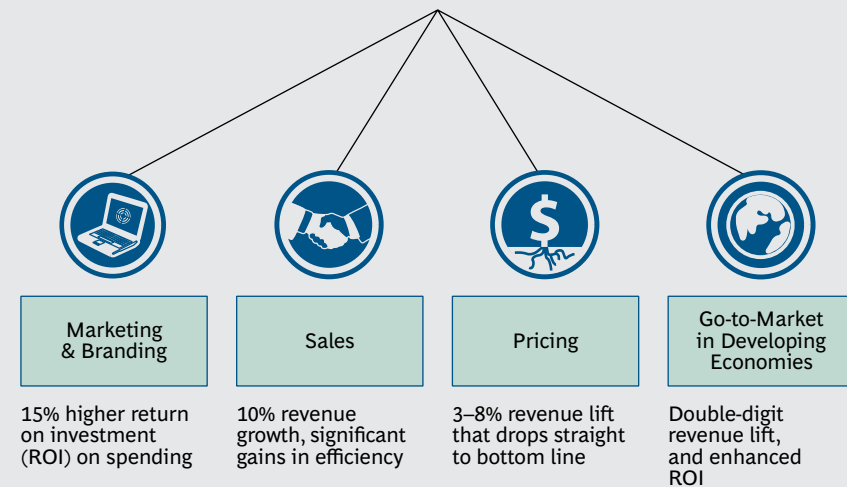
There is a rich prize for leading-edge adopters that ride the wave. Through comprehensive go-to-market transformation companies we know are able to capture 10 percentage points or more of incremental growth. Some expand margins by 5 points or more. Every commercial area has the potential to contribute significant growth and margin. (See the exhibit "Tallying the Benefits of a Go-to-Market Transformation.")

Go-to-market transformation is a particularly potent lever for growth because it exploits tactical, short-term victories to fund broader commercial transformation over the medium term. For example, one company started with a sales force effectiveness program that drove more than \$20 million in near-term value—an early success that energized the organization and created a financial foundation for a broader go-to-market transformation. From such beginnings, the ambitious company funded a larger set of programs, which in turn produced a step-change in both commercial capabilities and value delivery.

This transformational approach contrasts with conventional attempts to adapt through continuous improvement—a recipe for simply keeping pace with market growth. Our view is that, for most companies, the current scope

Tallying the Benefits of a Go-to-Market Transformation

Aggregate growth of more than 10% is achieved by transforming multiple commercial functions and capabilities



Source: BCG project experience.

Note: These overall results from go-to-market transformations reflect a company undertaking a subset of functional programs; efforts across all functions would have more dramatic results.

of change in the commercial landscape is too disruptive for incremental change to be effective. Maximizing value requires an aggressive and dedicated response.

Commercial transformation has a confirmed record of success in generating growth for a broad range of companies worldwide. They include a global manufacturer of mobile handsets, a European gas and energy utility, a U.S.-based retail bank, retailers, postal operators, and media companies.

The resulting revenue benefits are powerful in today's era of difficult growth, when even modest revenue growth can create substantial shareholder value. Mature companies that increased their top line by just 2 percentage points or more delivered shareholder returns 40 percent higher than the market average.

Growth Zealot or Go-to-Market Laggard?

Your company can ignore the potential benefits of the Go-to-Market Revolution, but it can't avoid the perils of failing to take part. The gap between capability leaders and laggards is growing.

If you are prepared to be a zealot for growth, here is a sample sequence of actions and best practices to consider.

- *Start with vision and ambition.* Does your company currently have the vision to transform your go-to-market capabilities? Do you have the ambition to increase your top line 10 or 20 percent beyond current projections in the next few years? A necessary first step is helping your leadership team understand the opportunities inherent in the Go-to-Market Revolution.
- *Undertake a quick initial diagnostic step.* Map how your customers' purchase pathways have changed. Assess your commercial capabilities: marketing, pricing, sales, branding, and insight. Determine where you stand compared with best-in-class competitors and identify which commercial functions offer the greatest near-term opportunity.
- *Tailor a series of programs to build capabilities and improve performance simultaneously.* For example, start with a high-impact pricing initiative. Some leading companies we know have begun with a pricing program that added tens of millions of dollars to the bottom line. Simultaneously, the programs have funded development of new pricing tools and capabilities, such as sophisticated discounting, mobile technologies, and advanced analytics.
- *With initial success in place, expand your efforts rapidly.* For example, launch a program that boosts marketing effectiveness—such as a brand advocacy campaign. Then launch another—such as a sales-activation initiative—to equip your sales force with a technical arsenal of twenty-first-century tools.

Make no mistake, you may need several waves of activity to meet your objectives in each commercial discipline. Indeed, achieving your overall profit and strategy goals will take years, not months. If it's done right, however, the journey will be self-funded. What is more, every growth gain and each advance in capabilities can create a reinforcing cycle of improvement for the entire enterprise.

Crucial to success in this endeavor is capable executive leadership. Company leaders must be committed to guiding and supporting the transformation across all three tides of change that drive the Go-to-Market Revolution: the

new and uncharted pathways your customers are taking to discover and purchase your products; the evolution of data, advanced technologies, and analytics that can re-arm your commercial teams; and the rise of emerging markets, which brings new growth and also new global competitors.

These are real challenges. For the bold, though, they present powerful paths to competitive advantage.

The growth zealot must be a leader—able to inspire executives, managers, and employees; capable of transforming the whole by reinventing its parts; and committed to forging a new commercial future for the enterprise.

A handwritten signature in black ink that reads "Rich".

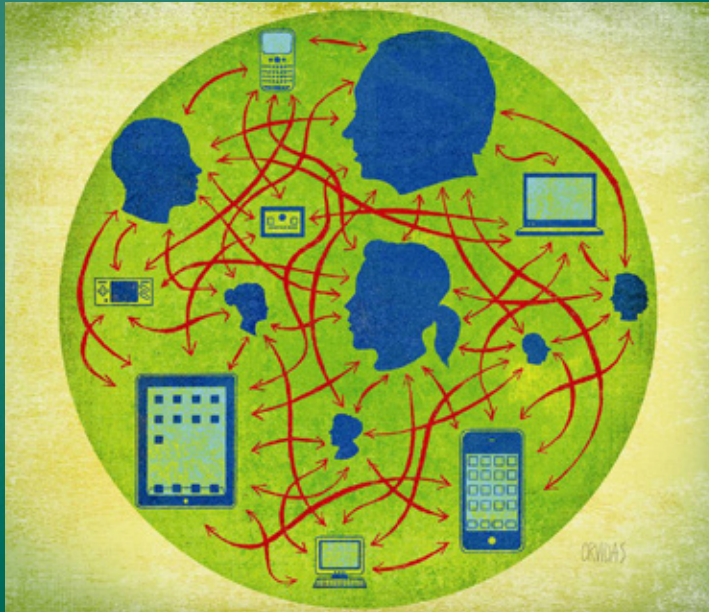
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MARKETING

CHOOSING MORE RIGOR OR RIGOR MORTIS



MARKETING HAS ARRIVED at its biggest inflection point since the invention of the TV ad. It is reinventing itself, on the fly, as marketers navigate a new, unstable, and dynamic landscape created by the digital revolution, globalization, and generational change.

The Millennial generation is changing the nature and practice of consumer marketing in developed economies. Millennials expect a two-way, mutual relationship with companies and brands: we call this *the reciprocity principle*—and we explore it in the first article in this chapter.

Through peer reviews, blogs, social media postings, and other online and offline advocacy, Millennials lead the way in influencing the purchase decisions of others—and even in defining the very identity of brands.

More than \$1 trillion is spent globally each year on marketing—and the figure doesn't include related commercial investments such as price promotions and sales force incentives. Yet even today, the rigor and sophistication of analysis that directs the investment of these large sums are often significantly less than that used to weigh capital allocations and other crucial spending. Indeed, many companies rely on short-term calculations and broad rules of thumb to guide their investments in strengthening their brands.

The second article in this chapter proposes a very different approach to marketing excellence—one that actually goes *beyond* marketing to encompass the management of all commercial investments by integrating a top-down strategic perspective with rigorous bottom-up analysis. Through the coordinated application of “smart data,” advanced analytics, and modeling, companies can use this approach to calculate and maximize the long-term impact, return, and brand enhancement achieved by marketing—and all commercial—investments.

Maximizing marketing effectiveness is not a trivial challenge anywhere in the world. But the hurdles—and the stakes for success or failure—are

particularly keen in rapidly developing economies (RDEs), as we discuss in this chapter's third article.

The largest global marketers are ramping up spending in RDEs, drawn by the potential rewards of dynamic new markets, growing economies, and increasingly affluent households. Taking advantage of those opportunities, however, requires dramatically enhanced capabilities. Marketers are accelerating investments in many economies in which they currently have only a limited ability to assess results or optimize returns. We identify five practical steps that marketers can take to jump-start their RDE marketing effectiveness.

MARKETING

THE RECIPROCITY PRINCIPLE

HOW MILLENNIALS ARE CHANGING THE FACE OF MARKETING FOREVER

COMPANIES: YOU SHOULD ALREADY be ready. Success in marketing to U.S. Millennials—the generation of people now 18 to 34 years old—will be critical to companies across product and service categories.¹ One reason, of course, is that Millennials represent the consumer market of the future. U.S. Millennials already account for an estimated \$1.3 trillion in direct annual spending.² This sum will grow dramatically, for only now are the first Millennials reaching peak buying power. By 2030, Millennials in the U.S. will likely outnumber baby boomers 78 million to 56 million—and they are forming lifelong shopping preferences and habits now.

It is perhaps more important that this generation is transforming consumer marketing itself. Millennials are distinguished from older generations by their spending habits, brand preferences, values, personalities, and general outlook on life. Furthermore, they engage with brands far more extensively, personally, and emotionally—and in entirely different ways—than have other generations.

Millennials expect a two-way, mutual relationship with companies and their brands. We call this *the reciprocity principle*. Through the feedback they express both offline and online, Millennials influence the purchases of other customers and potential customers. They also help define the brand itself. The Internet, social media, and mobile devices greatly amplify Millennials' opinions and accelerate their impact. Companies can expect that a positive brand experience will prompt Millennials to take favorable public action on behalf of their brand. A bad—or even just disappointing—experience can turn a Millennial into a vocal critic who will spread the negative word through social media, reviews, and blogs. And that criticism can go viral.

In marketing, as in pop culture, Millennials are leading indicators of large-scale changes in future consumer behavior. Millennials are also leading indicators of the new “status currency”—the status and values that consumers wish to project through their purchase decisions and their brand affiliations.³ As a result, this generational transition is ushering in the end of consumer marketing as we have long known it.

The Reciprocity Principle

The conventional framework that most companies have used to approach marketing is often depicted as a funnel, with the company at one end and the customer who has made a purchase at the other. Under this concept, a company starts by defining the positioning, benefits, and personality of its brand. It then pushes that image down to consumers in an attempt to build awareness and, eventually, customer loyalty.

Yet this simple description of a linear relationship is outdated. Instead of being a process that is led and pushed by companies, modern marketing is an ecosystem that is influenced by some factors that a company can control and some that are beyond its control. It is a system in which marketers, customers, and potential customers perpetually exchange experiences, reactions, emotions, and buzz.

A more effective marketing approach will be driven by the reciprocity principle. For the purposes of this report, we describe five key elements of the reciprocity principle: *reach*, *relevance*, *reputation*, *relation*, and *referral*.

- *Reach*. Millennials are digital natives. They are more technologically savvy than other generations, and they use portable devices more extensively to access the Internet while physically visiting stores. Companies must use the full array of available media, as well as mobile devices, to reach these consumers and build brand awareness as cost-effectively as possible.
- *Relevance*. Millennials, whose values differ from those of older generations, are distributed among a wide range of life’s stages: while some have started families, for example, others still live with their parents. Yet others are first-time independents. Their brand choices, moreover, are influenced by more and different kinds of people. Companies must be aware of all this to make their brands relevant and appealing.

- *Reputation*. Because Millennials identify more personally and emotionally with brands, it is especially important that brands strive to maintain genuine reputations that reinforce the traits, personalities, values, and causes that Millennials hope that they project about themselves.
- *Relation*. Companies must maintain a two-way dialogue with Millennial consumers. Businesses must listen to them, incorporate their feedback and input, and quickly respond to them and their concerns in a personal and straightforward manner.
- *Referral*. To build brand loyalty and persuade Millennials to be positive advocates of their brands, companies must build an ongoing relationship through individual and online community communications, social media, and advocacy programs.

We surveyed nearly 800 Millennials and more than 1,700 non-Millennials in the U.S. as part of our 2013 Global Consumer Sentiment Survey. We also conducted a study of more than 400 U.S. Millennials and nearly 1,000 non-Millennials. We compared their responses with those of consumers of other generations—Gen-Xers (ages 35 to approximately 49), baby boomers (ages approximately 50 to 69), and the so-called silents (ages approximately 70 and older). Some of our key findings follow.

Reaching Millennials. Millennials are considerably more engaged with digital technology and social media than older generations are. In fact, 37 percent of younger Millennial respondents (aged 18 to 24) said that they feel as if they are “missing something” if they are not on Facebook or Twitter every day; only 23 percent of non-Millennials reported feeling the same way.

Millennials are also connected to brands wherever they go: 46 percent of surveyed Millennials said that they access search engines such as Google while they are in a store, compared with 29 percent of baby boomers. Around twice as many Millennials as boomers said that they check prices, look up product information, or search for coupons or promotions on their mobile devices while they are in a store.

Establishing Relevance. The Millennials we surveyed reported that, on average, their purchase decisions are influenced by five people, compared with three for boomers. Millennials are also influenced by different types of people. Less than half of Millennials said that they trust expert advisors, such as doctors and financial advisors, compared with 61 percent of non-

Millennials. Just 4 percent—compared with three times as many boomers and silents—said that they are *most* influenced by experts. Fifty-nine percent of Millennials said that friends influence their purchase decisions. They were twice as likely as Gen-Xers to say that they are influenced by celebrities.

U.S. Millennials display high levels of egocentrism. Thirty-five percent said they believe that beauty is more important to them than it was two years ago, while 37 percent cited wealth and 45 percent cited professional success. Non-Millennials place much higher importance on such values as patriotism, spirituality, religion, and calm. (See Exhibit 1.)

Burnishing Brand Reputation. Millennials identify with brands more personally and emotionally than do older generations. Fifty percent of U.S. Millennials ages 18 to 24 and 38 percent of those ages 25 to 34 agree that brands “say something about who I am, my values, and where I fit in.”

Reflecting the new status currency, Millennials view brands as extensions of their own values and status. Indeed, only 22 percent of U.S. Millennials said

that brands must “stand behind” their products, compared with 42 percent of baby boomers. Through their actions, their storytelling, and the endorsements they garner, companies should express the traits and affiliations that Millennials wish to project about themselves.

Cultivating Relationships. More than other generations, Millennials desire opportunities to interact with brands, to be listened to anywhere and any-time, and to have personal, timely, and straightforward communication about their concerns and experiences.

Millennials were asked to name the most important things brands can do to “engage and interest” them: their top two responses were to reward their loyalty with discounts and promotions and to “be authentic.” More Millennials than other generations also listed being available, supporting causes, and having a brand personality. (See Exhibit 2.) Nearly twice as many Millennials as boomers said that a brand’s availability 24-7 is the most important thing that brands can do to engage them.

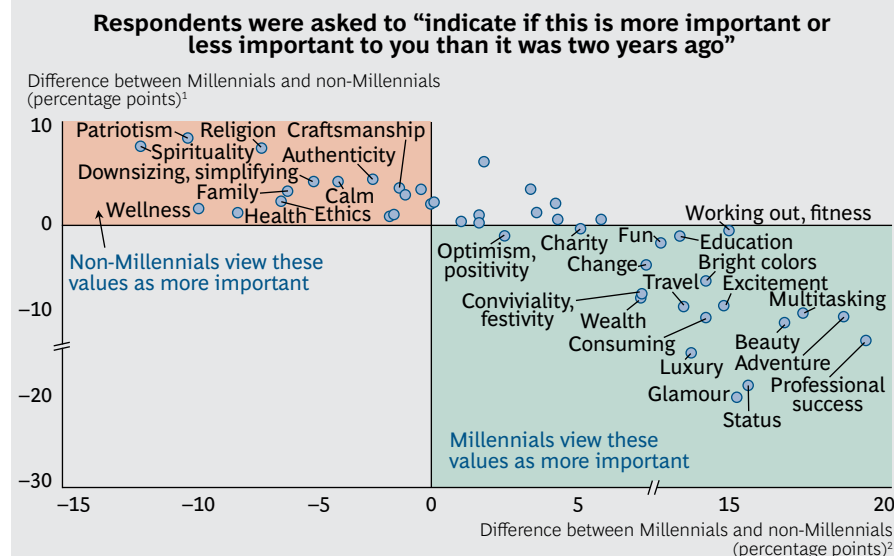
Forty-eight percent of young Millennials reported that they “try to use brands of companies that are active in supporting social causes.” When asked whether “brands should help those in need,” more Millennials than the U.S. average agreed that they are more likely to buy a product if they know that the company is “mindful of its social responsibilities” and that they buy from companies that “show concern for the environment and sustainability.”

Inspiring Millennials to Make Brand Referrals. Engaging U.S. Millennials after a purchase is critical, and not only to keep them as customers. It is important also because Millennials are more eager than other generations to share opinions on the Internet. Millennials are around 2.5 times more likely than boomers to at least occasionally share a social-media link referencing a brand or product and to follow brands on Twitter. They also support their favorite brands online far more often than boomers: Fifty-two percent said they post likes of a brand on social media such as Facebook, and 21 percent reported that they do so “every time” or “almost every time.” Thirty-nine percent said that they post reviews of brands or products.

Implications for Marketers

Companies targeting the Millennial generation should align their strategies, initiatives, and investments around the reciprocity principle. We suggest the following tactics.

EXHIBIT 1 | Millennials View Status, Success, Luxury, and Consuming as Increasingly Important



Source: BCG U.S. Millennial Supplemental Consumer Sentiment Survey, 2013.

¹Less important than two years ago.

²More important than two years ago.

EXHIBIT 2 | Customer Service Availability, Support for Causes, and Brand Personality Are Most Important to Millennials

What can brands do specifically to most engage or interest you?

Millennials



- Reward loyalty with discounts, promos, offers
- Be authentic
- Brand stands behind its products
- Reward my loyalty with exclusives
- Be available 24-7
- Support causes
- Brand has personality
- Resolve conflicts with products quickly
- Brand is humorous, clever, witty
- Have a long history, heritage, existence
- Resolve conflicts sufficiently

Baby boomers



- Brand stands behind its products
- Reward loyalty with discounts, promos, offers
- Be authentic
- Resolve conflicts with products quickly
- Reward my loyalty with exclusives
- Have a long history, heritage, existence
- Resolve conflicts sufficiently
- Support causes
- Be available 24-7
- Brand is humorous, clever, witty
- Brand has personality

More important Less important

Source: BCG U.S. Millennial Supplemental Consumer Sentiment Survey, 2013.

Set and communicate clear, measurable goals. One way to encourage accountability is to publicize Millennial objectives within the company. Companies should adopt an annual Millennial marketing plan based on an integrated, holistic approach that brings together planning, media mix, campaigns, and tactics.

Reach Millennials with a cross-media, cross-channel brand presence. To engage with Millennials where they are, a brand must be present across the full range of media, through offline and online channels, and on mobile devices. Companies need to know which media, channels, and devices work best at conveying promotions, messaging, and brand personality to Millennial targets.

Make sure marketing communications are relevant. Companies must make sure that their marketing communications are optimistic and positive in tone. They should visually portray Millennials as broadly diverse and inclusive. Companies should not ignore the marketing value of testimonials from celebrities.

Reinforce reputation in Millennial channels. A company can connect with the new status currency by demonstrating to Millennials that its brand's soul is aligned with their values and that customers are doing good by purchasing that brand. Companies can act meaningfully by creating nonprofit partnerships that promote the causes they support, adopting new codes of corporate conduct, and improving their hiring, people management, sourcing, and manufacturing practices.

Relate to Millennial constituents. Companies need to invest in nontraditional marketing initiatives and organizational capabilities that allow them to build relationships with Millennials. The goal should be to cultivate more of a one-on-one or small-community connection with customers and potential customers.

Cultivate Millennial referrals. Companies can cultivate and measure relationships with consumers who are most likely to influence their target market. They can also influence brand conversations. An effective plan requires an online and offline referral-marketing program that allows customers to interact with the brand and each other and to deepen each customer's relationship with the company.

The imperative to engage and win over the Millennial generation represents an entirely new set of challenges for U.S. marketers, especially those accustomed to pushing consistent, polished messages from the top. Companies that are able to master the reciprocity principle will have a competitive advantage not only when it comes to attracting and retaining the valuable Millennial generation. They will also be more successful at appealing to customers across other generations who are rapidly changing the way they interact with brands.

NOTES

1. The Millennial generation is defined in different ways. For this report, we define Millennials as people now 18 to 34 years old.
2. Of this total, \$430 billion is regarded as discretionary, nonessential spending. The total does not include Millennial-influenced spending, such as spending by parents and grandparents.

3. See *The Resilient Consumer: Where to Find Growth amid the Gloom in Developed Economies*, BCG Focus, October 2013.

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This article was excerpted from The Reciprocity Principle: How Millennials Are Changing the Face of Marketing Forever.

MARKETING

NO SHORTCUTS

THE ROAD MAP TO SMARTER MARKETING

MORE THAN \$1 TRILLION is spent annually on marketing around the world, and that sum doesn't include related forms of commercial investment, such as trade spending, price promotion, and sales force incentives. Many companies spend as much—or more—on advertising alone as they invest in capital expenditures. This situation led Jim Stengel, former global marketing officer for Procter & Gamble, to observe that companies spend millions on media today with less data and discipline than they bring to investments one-tenth the size in other areas of their business.

The Need for Rigor in Spending

Many executives tell us they face increasing demands to achieve greater accountability through better marketing metrics. Yet marketing performance depends heavily on elements that are difficult to measure precisely—from ad content and its creative execution to the effects of changes taking place in related business activities.

As a result, it can be extremely difficult to isolate the specific drivers of business results. This is particularly true today, when so many functions outside of marketing—such as sales or customer service—can significantly influence the brand experience.

Given the inherent challenges of measuring and optimizing a company's return on marketing investment (ROMI), it's not surprising that many managers take refuge in simplistic rules of thumb. Nevertheless, our experience and research confirm that there are few, if any, effective shortcuts.

Testing the Rules

To validate some of the rules of thumb most commonly used to justify marketing budgets, BCG and Marketing Analytics partnered on a meta-analysis of 75 comparable marketing-mix models for consumer packaged goods in the United States. We used the models to analyze each brand's

ability to drive incremental sales volume from marketing activities, including trade spending, and from advertising via television, print, radio, billboards, and online media.

The first key finding from our research was a surprisingly wide variance in marketing impact, marketing efficiency, and return on marketing investment (ROMI) for brands with reasonably similar profiles—that is, for consumer packaged goods sold in the same channels during the same time period. (See Exhibit 1.) Across the brands in our sample, the incremental impact of marketing on unit sales volume ranged from 1 percent to more than 50 percent.

In examining marketing efficiency, we found that companies spent anywhere from less than \$100,000 to almost \$18 million to capture an incremental percentage point of unit sales volume for a brand. Thus, for every dollar spent on marketing, the companies in our data set were able to generate

anywhere from \$0.04 to \$2.75 worth of incremental sales. And in terms of ROMI, brands realized anywhere from \$0.03 to more than \$2 of incremental gross margin for every dollar spent on marketing.

Such a wide variation in the outcomes of similar marketing-mix models suggests that there is no benchmark for marketing returns that managers can reliably apply across brands when planning budgets. Historical benchmarks may be calculated for a specific brand, but they cannot be generalized to other brands—even within similar product categories. As much as managers might wish otherwise, a “typical” return on marketing investment is a myth.

The second key finding from our research was that many of the rules of thumb frequently used as shortcuts for allocating marketing budgets had little or no correlation with enhanced performance in marketing. We evaluated the following five commonly used rules for allocating marketing investments.

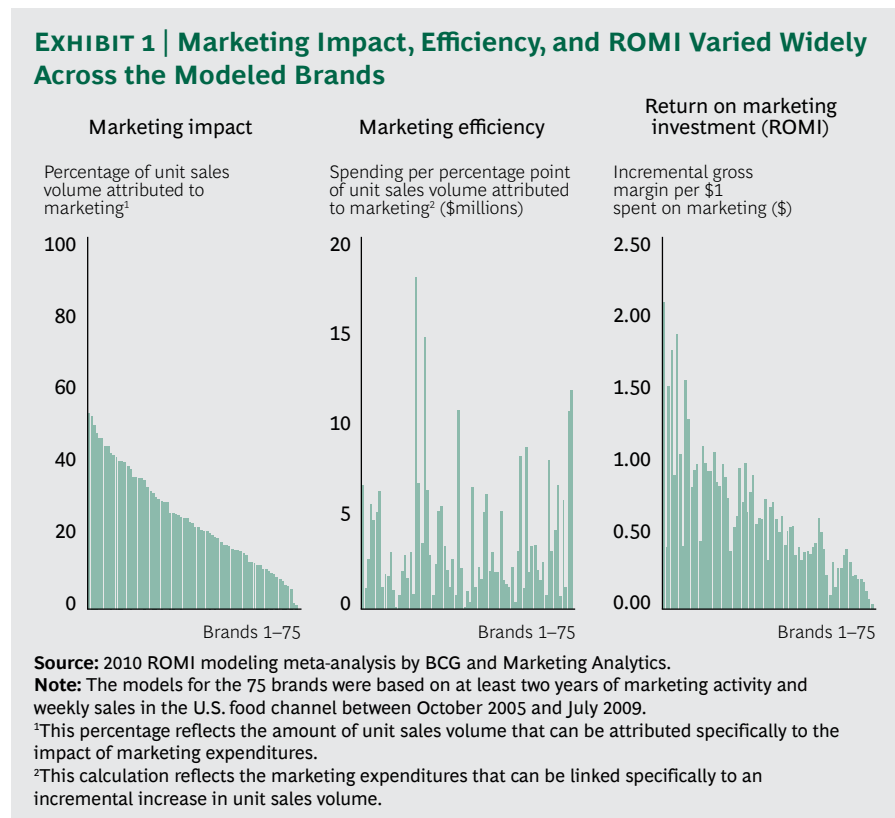
Peg Marketing Budgets to Revenues

We found no consistent correlation between marketing spending as a percentage of dollar sales and either marketing impact or ROMI. Brands that spent more on marketing as a percentage of dollar sales (that is, 30 to 35 percent rather than 20 to 25 percent) did not drive more volume but did realize lower returns on their investment. We therefore conclude that spending as a percentage of dollar sales is not viable as either a standard managerial target for marketing budgets or a competitive benchmark.

Maintain “Share of Voice” and Overinvest to Gain Market Share

In the hopes of securing what they consider a fair share of voice in the ongoing “conversations” with consumers, marketers often look to the competition when determining their level of advertising. However, we found that brands with a relatively higher share of voice, calculated as an estimated percentage of overall media spending in the category, did not consistently drive greater unit-sales volume—and often generated less gross margin for every dollar they spent on marketing. Similarly, companies that overinvested to capture a share of voice that exceeded their market share also failed to achieve greater return.

In short, simply shouting louder than the competition does not appear to be the best path to achieving marketing success.



Integrate Marketing Campaigns to Realize Synergies Across Vehicles.

Increasing the number of marketing vehicles and decreasing the average spending per vehicle resulted in both lower unit-sales volume and lower ROMI. While synergies between marketing vehicles exist and can be measured, managers cannot assume that these occur in the absence of sufficient support. Adding marketing vehicles requires increasing the total budget.

Invest in Brands with the Highest Market Share. Incremental unit-sales volume was not any greater for the brands that had relatively higher market share—in fact, the return on investment was actually lower for these brands. Therefore, driving incremental unit-sales volume was expensive and inefficient for the highest-share brands in our sample. Managers should therefore consider investing in lower-share brands, since they offer greater marginal opportunity.

Invest in High-Margin Brands. Brands with relatively higher gross margins did not deliver greater marketing impact and had comparatively lower ROMI. Brands with a gross margin below 50 percent of the net sale price had higher marketing impact and delivered greater incremental gross margin per \$1 spent on marketing than did brands with a gross margin above 50 percent. Managers shouldn't assume that higher-margin brands offer higher returns on marketing.

In certain cases, applying rules of thumb might improve marketing performance. However, as our study reveals, such rules shouldn't be followed blindly, without analysis of the situation.

A Better Road Map

Most companies have tried to improve discrete elements of their marketing plans, but few have addressed all the activities in their commercial mix. Fewer still combine the rigor of models and research with the art of strategy and creativity for a balanced approach to marketing.

Many also fail to sufficiently balance traditional marketing-mix measures of near-term sales impact with longer-term measures of brand strength and customer retention. Finally, few managers are able to adjust and optimize their commercial activities continuously.


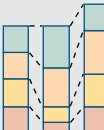
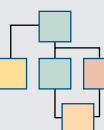
The approach we recommend for achieving higher ROMI employs a proven and comprehensive set of tools. It incorporates all the tactics that are

generally considered when optimizing ROMI, as well as those that fall under a broader banner that we call *return on commercial investment*, or ROCI.

In addition to the traditional ROMI levers of media spending and consumer promotions, ROCI captures a wide range of other business drivers, including trade marketing, product quality, pricing, distribution, and sales force activities, as well as the external context of the overall brand category and economy. Through this approach, we evaluate commercial investments not only for their ability to drive short-term sales, but also for their potential to build brand equity over the longer term.

The goal of this approach—which we outline below and in Exhibit 2—is to establish a lasting measurement and optimization capability within the commercial organization.

EXHIBIT 2 | Measuring and Optimizing ROCI Requires Activities at the Strategic, Tactical, and Operational Levels

Level of activity	Key levers	Core principles
 Strategic	Precise allocation of the portfolio	• Allocate resources to brands with high potential and high commercial response
	Clear marketing objectives	• Align on a few specific objectives
	Focused customer targeting	• Focus on the highest-value customers
 Tactical	Level of spending	• Find your sweet spot: above the minimum and below the maximum
	Commercial mix	• Optimize on the basis of driver efficiency
	Timing of activities	• Balance message reach and frequency
 Operational	Organizational alignment	• Align disparate commercial disciplines
	Process integration	• Integrate pan-commercial processes
	Metrics mindset	• Embrace a culture of measurements
	Analytical competence	• Enhance analytical talent and tools
	Systems and infrastructure	• Determine what, who, why, when, and how often

Source: BCG experience and analysis.

Strategy: Spend on the Right Things

At the strategic level, the key ROCI disciplines are precise allocation of investments across the portfolio, clear commercial objectives, and focused customer targeting.

Allocate spending based on strategic potential and commercial response. Commercial budgets should be directed to businesses that deliver high ROCI and offer long-term strategic potential. Our research in consumer packaged goods suggests that U.S. manufacturers should adopt a strategy of “go big or go home.” The largest absolute budgets allocated to the largest brands (determined by unit sales volume rather than market share) in the largest categories yielded a disproportionately higher return on investment.

Set clear, discrete, and measurable commercial objectives. Commercial objectives and success are too often defined after the fact by choosing from a grab bag of the most favorable metrics at hand. Even when commercial objectives are determined ahead of time, they are not always aligned with corporate objectives or across the commercial organization.

Target the subset of customers who really matter. Managers need to first determine which customers drive value for a category and a brand, and then understand their behaviors, demographics, and attitudes. For example, one of our clients discovered that a large, highly valuable group of buyers tended to make purchase decisions as early as six months before a product’s launch. Therefore, virtually all the commercial activity timed to coincide with the launch itself was wasted on a critical segment of “early deciders.”

Tactics: Spend in the Right Ways

Tactics address a company’s level of commercial spending, allocation of the commercial mix, and timing of commercial activities.

Spend above the minimum threshold but not beyond the point of diminishing returns. Many commercial investments are too small to break through the clutter of overcrowded markets and capture consumers’ short attention spans. Others are too large given the marginal impact they deliver. Our research clearly showed that increased absolute spending drove incremental volume—but with declining efficiency.

Reallocate the commercial mix toward the highest-return vehicles. Companies intuitively know that there will be varying levels of impact, efficiency, and ROCI for different commercial activities. But they do not always

quantify these important differences. Our research identified clear patterns of inefficient allocation. Specifically, most of the brands in our sample overinvested in trade spending and television ads that generated high incremental volume but low efficiency and low return. Overall, impact equals neither efficiency nor return on investment—and volume does not ensure value.

Balance message complexity, reach and frequency of marketing, and product purchase cycles. Consumers must be exposed to ad messages with sufficient frequency for investments to pay off—just how often depends on message timing and complexity. Complex messages require more exposure, and a minimum threshold of initial investment to achieve efficiency and payback. By contrast, simple messages have no minimum threshold: the first impression is the best, and it’s all downhill from there.

Operations: Analyze, Execute, Measure, Adjust, and Repeat

The final and perhaps greatest barrier to making commercial spending more accountable is developing the capability to measure and optimize ROCI consistently and continuously. This capability requires companies to embed new tools into their commercial-planning processes and new thinking into the culture of their commercial organizations.

Operations must be more than an afterthought when optimizing ROCI. Most successful companies spend a good deal of time addressing organizational and cultural hurdles in addition to analytics and models. Specifically, they focus on five objectives.

Organizational Alignment. A typical commercial organization houses many disciplines, including advertising, sales, loyalty marketing, and pricing. These groups must develop a common understanding of the accountability imperative, a common definition of ROCI, and a metrics toolkit.

Process Integration. Each commercial discipline has its own processes for planning, budgeting, and execution. Although these processes do not need to be standardized across the commercial organization, they do need to be integrated so that they enable commercial planning and measurement across functions.

Metrics Mindset. Commercial activities are not becoming less creative, but they are certainly becoming more analytical. Managers should champion the metrics and processes of ROCI optimization and integrate them with the

brand and the broader category context. The goal is to bring both right- and left-brain thinking—art and science—to the marketing challenge.

Analytical Competence. The level of analytical competence in many commercial organizations has much potential for improvement given the amount of data, metrics, and sophisticated analytics available today. Options available include upgrading talent through training and hiring, relying on analytical suppliers, either external or in-house, and developing internal centers of analytical excellence.

Systems and Infrastructure. Database and information technologies required to measure and optimize commercial investments are not trivial. When properly understood and scoped, data sources can be mapped to the models and tools they feed, allowing for highly efficient updating.

Like other major productivity and efficiency improvement programs, optimizing ROCI cannot be accomplished through shortcuts. It requires a dedicated change-management effort. In most cases, embedding a ROCI capability throughout the enterprise takes well over a year. However, if done correctly, this up-front dedication will benefit the commercial organization for years to come.

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Rohan Sajdeh
Jens Harsaae
Ross Link
Kevin Richardson

This article was excerpted from No Shortcuts: The Road Map to Smarter Marketing.

MARKETING

MARKETING EXCELLENCE IN A GLOBALIZING WORLD

FIVE STEPS FOR OPTIMIZING RETURNS IN RDEs

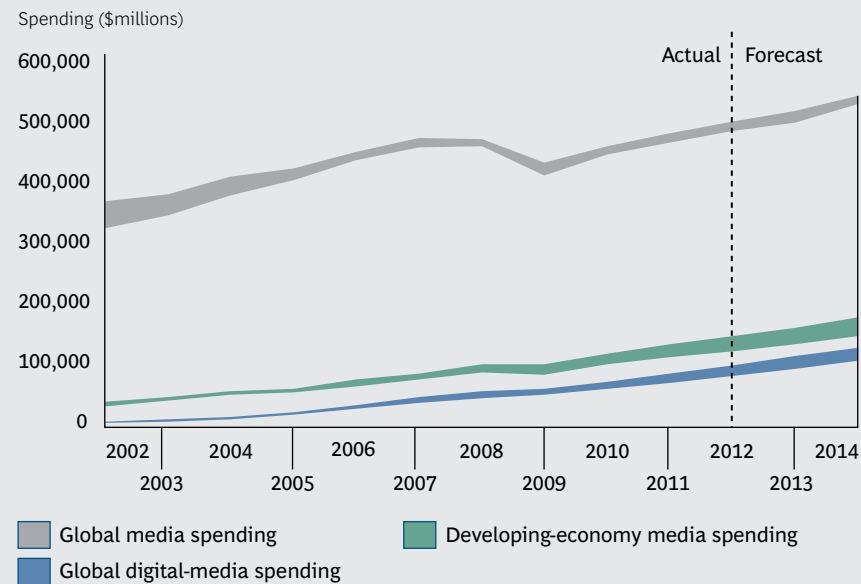
THE RISE OF DIGITAL MARKETING has been a very public revolution. It has bred innovation, sown disruption, and redefined marketing accountability. The lure of huge online audiences, data-driven metrics, and higher returns on investment has accelerated the migration of marketing dollars from old media to new.

At the same time, a less widely recognized and little-analyzed evolution in marketing is gathering momentum. This stealthier shift is the steady increase in marketing dollars flowing to the world's rapidly developing economies (RDEs). Overall media spending in RDEs—including both digital and nondigital budgets—now surpasses the total amount spent on digital media globally. (See Exhibit 1.)

The marketing surge isn't due to just the rise of local champions. Rather, the largest global marketers are ramping up spending, drawn by the huge potential opportunities offered by rapidly expanding wealth in the developing world. Yet the benefits of globalized marketing mask enormous hidden costs and risks: marketers are accelerating investments in economies where they typically have only a modest ability to track and assess results or optimize their return on marketing investment (ROMI). As these multinational companies throttle forward, they risk stalling instead, wasting millions of dollars on ineffective marketing initiatives. More crucially, they are jeopardizing their hard-won momentum in gaining competitive advantage in the economies now driving global growth.

There is a better way. Based on our experience in many countries, including Brazil, China, India, Russia, and Vietnam, we have identified five practical

EXHIBIT 1 | Spending on Media in Developing Economies Outstrips Global Spending on Digital Media



Sources: Zenith Optimedia, Magna Global, and GroupM.

steps that marketers can take to jump-start their ability to measure marketing effectiveness in RDEs.

Pressure Rises to Justify Marketing Investments

Maximizing marketing effectiveness is not a trivial challenge anywhere in the world. But the stakes are escalating more quickly in RDEs. Media spending alone in developing economies increased by up to \$60 billion from 2007 through 2012. Total digital-media spending worldwide, meanwhile, rose by about \$55 billion. While some of the increased spending in emerging economies includes digital media, much of it is flowing to traditional media, such as television, magazines, newspaper, radio, and outdoor advertising.

Many large companies today spend more on just the advertising portion of their overall marketing budgets than they do on capital investment—often deploying far less analytical rigor in tracking the return on investment. Among a sample of more than 150 *Fortune* 500 companies that publicly report their advertising expenses, nearly a third devoted as much to advertising as to capital expenditures. Nearly half reported that their

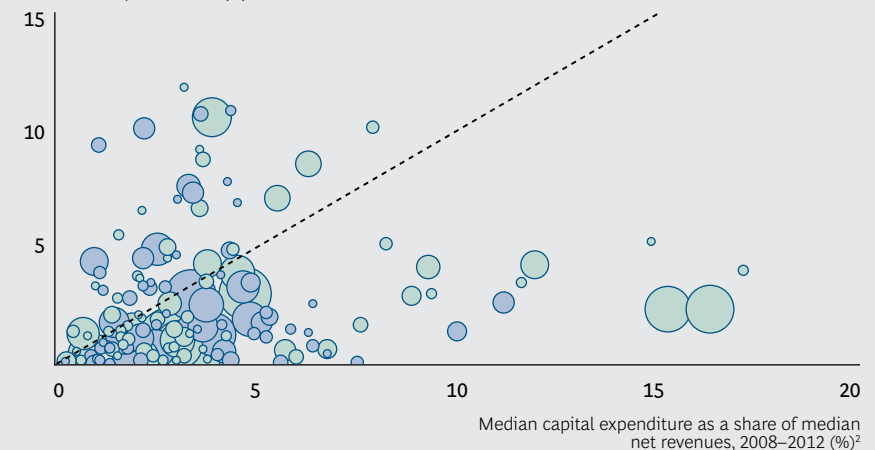
advertising expenses rose faster than capital investments over the preceding five years. (See Exhibit 2.) Worldwide, media spending alone grew at rates of up to an estimated 4.4 percent annually from 2002 to 2012, rising as high as \$490 billion from about \$175 billion. Media and advertising expenses represent only a portion of companies' overall marketing and commercial investment.

Marketing's expanding share of large-company budgets hasn't escaped the scrutiny of shareholders and financial analysts. This, in turn, has increasingly prompted executives to require marketers to monitor and report their return on a company's investment.

At most large companies, ROMI is highly variable—even across similar brands in the same market—complicating the task of setting benchmarks and budgets. Similar variability exists across global markets. One of the

EXHIBIT 2 | At Many Corporations, Advertising Expense Surpasses Capital Expenditure and Is Growing More Quickly

Median advertising expense as a share of median net revenues, 2008–2012 (%)¹



- = Median net revenue, 2008–2012
- = Growth in advertising expense > growth in capital expenditure
- = Growth in advertising expense < growth in capital expenditure

Sources: BCG ValueSciences Center; BCG analysis.

Note: N = 153 companies from the *Fortune* 500.

¹The median of annual advertising expense from 2008 through 2012 was divided by the median annual net revenues over the same time period.

²The median of annual capital expenditures from 2008 through 2012 was divided by the median annual net revenues over the same time period.

world's 100 largest brands found that the return in its best market was 27 times better than in its worst.

Even in well-developed, data-rich markets like Japan, the U.S., and Western Europe, many companies are still frustrated by their inability to measure and optimize marketing performance. Difficulties are often compounded in developing markets, where the challenges can include the following:

- Lack of accurate sales volumes and point-of-sale transaction data
- Absence of accurate and consistent media delivery and exposure data, such as gross rating points and circulation
- Poor-quality sampling and market-research panels that undermine the use of many traditional tools for gaining consumer insight
- Opaque cost-accounting practices among marketers, their agencies, and media companies, including significant—but invisible—rebates
- High turnover at thinly staffed commercial organizations that hinders data tracking and analysis

Five Steps for Jump-Starting RDE Marketing Measurement

Companies can take five practical steps right now to jump-start their ability to measure and track marketing success in RDEs. In our experience, marketers that take this path can often achieve up to an 8 percent increase in sales volume for their investment.

Build your team. The first step is to build a center of excellence and a team of ROMI experts who can lead the charge toward marketing effectiveness in developing economies. Realize that this is a capability-building journey and not an analytical exercise. Better data, better tools, better analytical skills and talent will all find their way to developing markets over time. Someday, Mexico, Turkey, or Vietnam may reach the level of the U.K. and the U.S.—or even leapfrog them altogether. Companies should put in place a foundation and a road map now for creating competitive advantage in the future.

As you move forward, look for short-term opportunities within your portfolio of brands and markets to improve the impact and efficiency of your invest-

ment. Reallocating spending to higher-return initiatives will help fund the long-term journey.

Work with what you've got. Second, management should listen to—and then reframe—the excuses they often hear during discussions of ROMI in developing economies. For example, “We don’t have the data to do that in South Africa,” or “We don’t have the bandwidth or skills to do that in Egypt.” These limitations may exist today, but they needn’t exist tomorrow—and they shouldn’t be allowed to frame the conversation on marketing effectiveness.

Don’t get caught up in building a vision, at least at the outset. Our experience shows that no tool, analysis, or data source can act as a silver bullet, even in the most developed and data-rich markets. If you wait for the perfect tool or skill set to be developed, you’ll never actually get started on the journey to measure and optimize marketing performance while marketing dollars continue to flow.

Even in developing markets, enablers may permit taking initial actions that build momentum and the desire to move forward faster. The process places a premium on an organization’s ability to test, learn, and develop metrics.

Develop a “common currency.” Third, develop a common-currency approach, across all brands and markets, to measure marketing performance, set strategy, and allocate spending. A common currency, simply put, is a set of key performance indicators (KPIs)—typically fewer than ten—that are applied consistently across business units, brands, and markets over time and that every brand and country marketer should memorize. This basket of benchmark indicators should include a mix of long- and short-term performance metrics that are fed by a range of tools and data sources.

A common currency gives senior management a consistent view of marketing performance across the global business—not just in mature markets—when allocating marketing dollars. It also imposes a common language in the setting of strategic objectives, requiring business units, brands, and markets to be explicit about which KPIs they are and are not targeting.

Map the road ahead. Fourth, assess your current marketing capabilities and create a road map and an agenda for enablement. The goal is to create an understanding—based on facts and data—of existing, businesswide capabilities, and to collectively agree on the phases, timelines, roles, and responsibili-

ties for improvement. The inventory of the company's existing capabilities should include the following:

- Common-currency performance indicators
- A standardized toolbox of analytics
- An underlying infrastructure for using data and tools
- The ability to transform insight into action
- A skill-supported culture of accountability
- Consistent brand identity and consumer experience

Anchor the roots. Fifth, anchor the roots of your marketing-effectiveness efforts firmly throughout your organization. Your center of expertise, the common-currency approach, and enablement road map all should be rooted securely in the governance, decision rights, and organizational structure of the entire business.

While the data, tools, and skills to measure and improve marketing performance will all evolve over time, the commitment to ROMI and to developing economies must remain integrated in the overall company strategy, budget allocation processes, and marketing-planning processes.

The Importance of Getting RDE Marketing Measurement Right

More than \$1 trillion a year is spent on marketing globally, and the total is escalating. An increasing share of that rising outlay will come from global marketers racing to capture a share of the expanding wealth of rapidly developing economies.

From 2000 to 2011, the world's top 100 media buyers nearly tripled their spending to Asia-Pacific, Latin America, and other developing regions, according to the U.S. trade publication *Advertising Age*, accelerating their investments outside the mature markets of Europe and the U.S. In 2000, the top 100 spenders allotted roughly 80 percent of their \$75 billion media budgets to Europe and the U.S. By 2011, those allocations had shrunk to 70 percent, as the total spending pool grew to \$125 billion.

Given the size of the expenditure—and the magnitude of the prize—RDE marketing performance should be on all senior global executives' radar screens. They can take the first steps relatively easily and quickly by jump-starting their ROMI capabilities as discussed above.

COMPANIES THAT BEGIN the journey today will be on the winning track. Companies that stall risk wasting millions of dollars and untold time and resources. More crucially, they will squander the opportunity to achieve competitive advantage.

Dominic Field
Vaishali Rastogi
Neal Rich

FURTHER READING

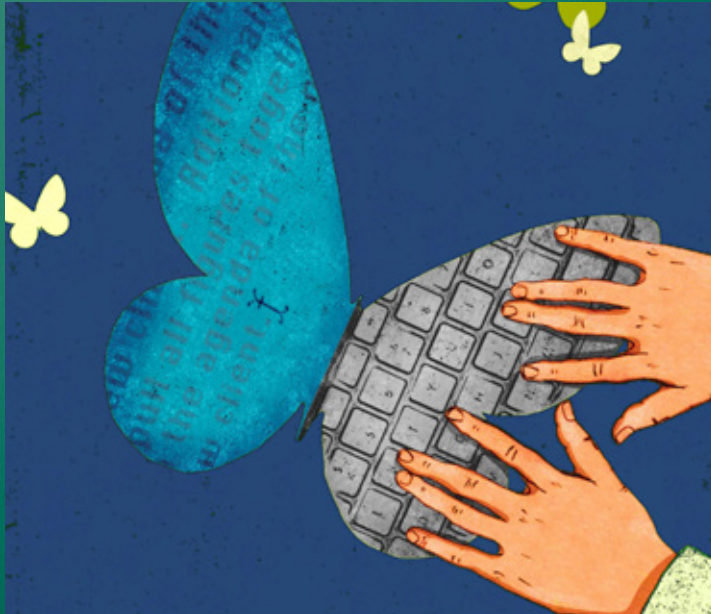
"Making Your Marketing Dollars Work Harder," BCG Article, October 2013

Efficiency and Effectiveness in Digital Advertising: Cutting Complexity, Adding Value, BCG Focus, May 2013

"Rethinking the Marketing Organization," BCG Article, July 2012

BRANDING

THE DEATH OF LINEAR LOGIC



ACHIEVING AN OPTIMAL BRAND STRATEGY and delivering a compelling brand experience is often perceived as an art. It is not—or at least not solely. Brand strategy is also a science that is rooted in data-driven insight and discipline. Applying this science is increasingly essential, as consumers today demand more from brands and engage with them across an increasing number of touch points and channels.

In short, the conventional, linear framework with which most companies manage brand engagement no longer holds. In today's new reality, marketing and branding is an ecosystem of multidirectional engagement rather than a process that is controlled and pushed by the company, as the articles in this chapter discuss.

A key element of the new framework is *brand advocacy*. Smart marketers have long understood that word-of-mouth recommendations and criticisms from consumers have greater impact on sales than do other sources of information. But companies have struggled to measure brand advocacy in the marketplace, to demonstrate its top-line impact, and to develop tactics that improve word of mouth.

To address these gaps, BCG has created the Brand Advocacy Index (BAI), a strategic metric that measures advocacy with much greater precision than existing approaches.

BRAND-CENTRIC TRANSFORMATION

BALANCING ART AND DATA

GOOGLE, APPLE, NIKE, AND LOUIS VUITTON are just a few of the names on any list of top global brands. These companies demonstrate without question that a brand can drive tangible financial impact and increase value for employees, customers, and shareholders. Of course, the inverse is also true: poorly crafted brand-building efforts can waste precious dollars from marketing budgets already stretched thin.

With so much at stake, brand building cannot be left to chance—or to creative advertising alone. The critical, strategic investment decisions required to shape and strengthen the brand must be tackled as such: debated by the most senior executives, grounded in data-driven insights, and embedded throughout the organization. Too often, however, brand transformation efforts falter because they lack the rigor and discipline that are applied to other business initiatives.

In developing their branding strategies, companies must move beyond qualitative research, such as consumer interviews and focus groups. These techniques can provide rich insight and emotional depth, but they are not conclusive. A more robust approach synthesizes a variety of sources for insights—including internal financial information, competitive landscaping, and quantitative market research. Given the growing complexity of business, “going with your gut” can lead to bad decisions. As the hit movie *Moneyball* showed, the best moves are often counterintuitive—and revealed only by rigorous data analysis.

Rules to Remember

Building a strong brand is not an end in itself but rather a way to drive customer loyalty, sales, profits, and shareholder returns. Executives looking for new avenues of growth or a turnaround in financial performance are

often wise to consider a brand transformation as one component of their strategy.

To ensure that your brand transformation effort will succeed, we suggest keeping a few key rules in mind:

- *The brand can't live on emotions alone.* Although emotional resonance with the consumer is a prerequisite for brand value, it isn't the only critical element. Companies must firmly link the emotional connection to the underlying product or service attributes and to the customer experience.
- *The brand can't be everything to everyone.* Managers must make the tough trade-offs required to keep a brand on target and reject anything that isn't “on brand.” For instance, an edgy lingerie company would do best to avoid adding a line of thermal underwear.
- *The brand is not a separate entity.* The “brand” cannot be owned solely by marketing and its advertising partners. Brand-related decisions must be sold to the entire organization—including the sales force, field operations, and franchisees—through internal brand building.
- *The brand is a moving target.* Because technology, consumer needs, and business models evolve, any brand must continuously adapt its current positioning to remain relevant. Consider a food brand that helps mothers feel virtuous about feeding their children. The product attributes required to deliver on that emotional need might shift from “low fat” to “all natural” and then to “organic” as consumer trends evolve.
- *The brand balances art and data.* To make the right investment trade-offs, companies must draw on data from quantitative market research and economic analysis to answer such key questions as: How large and valuable are the different market spaces that the brand might occupy? How many consumers will respond to a particular cluster of emotional needs? What is the relative consumer preference for each product attribute or experience? What is the likely profit impact of various brand investment options?

Understanding the Brand Benefit Ladder

A data-driven approach to brand transformation requires that executives first understand what drives consumer choice in the product category and

then translate that understanding into the core elements of the brand. To this end, we rely on the “brand benefit ladder,” a tool that describes how specific product benefits layer to support one another in delivering a brand experience to the consumer. (See Exhibit 1.) A basic brand-benefit ladder includes the following elements:

- *Technical attributes*: the physical characteristics of a product or service, such as the ingredients, quality level, or aesthetics
- *Functional benefits*: differences in how consumers use or experience the product or service features
- *Emotional benefits*: the feelings that the product or service inspires

Although technical attributes and functional benefits can vary between brands, they don’t provide sustainable brand differentiation on their own.

Emotional benefits are the key to creating customer loyalty, preference, and willingness to pay.

Every successful brand has a benefit ladder that is relevant, differentiated, and fully experienced by the consumer. For example, travelers on Southwest Airlines feel thrifty and savvy because of rock-bottom ticket prices and no-frills service delivered by high-energy employees. BMW owners feel proud to drive a superior-performance vehicle grounded in German engineering.

But simply using the brand ladder doesn’t prevent suboptimal branding decisions. Many marketers stop at the emotional layer of the ladder instead of quantifying and fully understanding the links among the technical, functional, and emotional layers. They may fail to use hard data to measure the value of potential brand investments and to prioritize trade-offs. Finally, they often struggle to implement the resulting brand-ladder elements and hold the organization accountable.

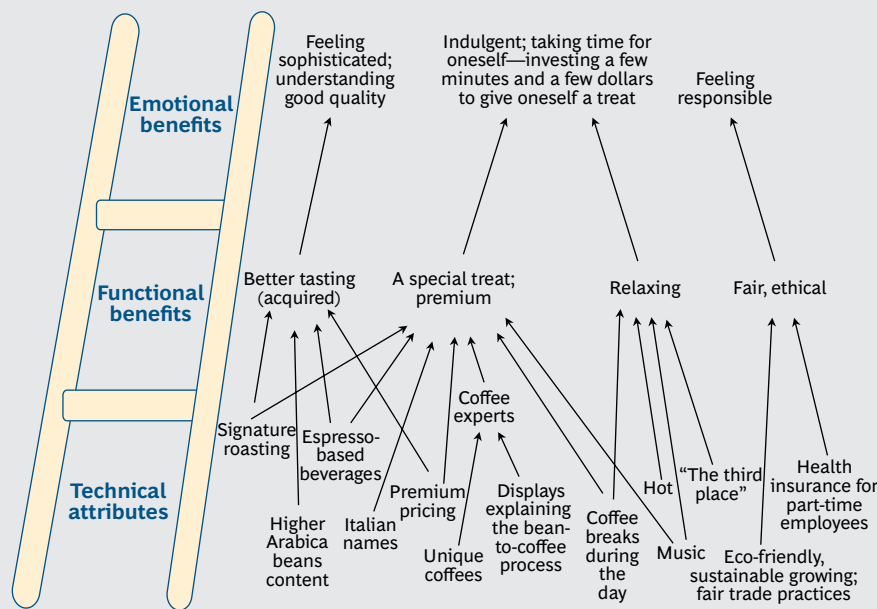
Why is implementing a new brand strategy so difficult? Too often, one part of the organization owns the emotional benefits while other parts manage the functional benefits and technical attributes. These groups may have limited interaction, and their key performance indicators are typically misaligned. Often, each group is evaluated and compensated on the basis of technical attributes that are irrelevant to, or even negatively correlated with, the emotional benefits that they are meant to support.

Emotional benefits are typically owned by the marketing organization and external advertising agencies—passionate brand gurus who may envision brand building as more of an art than a science. They may focus mainly on developing catchy messaging and gloss over the fundamentals of the product and customer experience. What’s more, they may fail to incorporate business metrics or opportunity sizing into their recommendations.

Meanwhile, technical attributes and functional benefits are often controlled by different company departments. Product development, pricing, merchandising, field operations, and real estate, for example, may each oversee different aspects of the product or service features. These departments often make day-to-day decisions and trade-offs independently, without considering the brand promise. Ultimately, coordination across these teams on any integrated brand transformation effort becomes a massive undertaking.

EXHIBIT 1 | The Brand Benefit Ladder Rises from Technical to Functional to Emotional Benefits

Illustrative example: Starbucks coffee



Source: Illustrative example (not based on case experience); BCG analysis.

A Four-Step Solution

The optimal approach to brand transformation ties together the brand benefit ladder, the drivers of brand choice, and the company strategy and is grounded in deep consumer insight—including both qualitative *and* quantitative analysis. It conveys the product’s technical, functional, and emotional benefits in a globally meaningful way. It ensures a consistently delivered experience using “brand drivers” across all the marketing Ps—such as placement, promotion, and people. It touches all parts of the organization to ensure buy-in and commitment. It is both creative and disciplined. It shapes what the company is (and is not) permitted to do and can be measured and tracked over time.

On the basis of our work with leading companies worldwide, we recommend a four-step methodology that quantitatively links the brand ladder to brand strategy and then enables the organization to translate strategy into reality.

Step 1: Identify the Drivers of Brand Choice. How do consumers choose between different brands within a product category? Choice drivers are never entirely rational. The final purchase decision usually reflects the feelings that consumers have when experiencing the category. For example, a retail store might feel like a “relaxing escape” from the busy world outside or invoke a “sensible” feeling of having made good use of one’s time and money.

Because the consumer sits at the heart of brand-centric transformation, so does exhaustive consumer research, which helps reveal the key drivers of choice. Combining this research with other data sources, such as a detailed assessment of the competitive landscape, can deliver a fuller perspective of the company’s differentiated brand positioning—a primary input to inform hypotheses.

But the ultimate goal is to develop a highly focused, large-scale quantitative survey of consumers to prove or disprove those hypotheses. This quantitative research should use multiple analytical techniques to identify emotional drivers overall and by market space.

The specific methodology should be adapted to a particular company’s unique situation, but it will typically include analytical research techniques that make it possible to prioritize individual attributes, highlight key relationships among attributes and benefits, and cluster similar drivers of brand choice.

Step 2: Select the Target Market Spaces. Which market spaces are best suited to the brand? The goal is to identify opportunities that are financially attractive and available—ideally, “white spaces” not already owned by an existing brand or adjacent to where the company’s brand currently plays. Market sizing is critical in terms of the customer base but also in terms of dollars. Again, this step is heavily driven by analytics. Large-scale quantitative surveys can determine the size of each market space and identify which spaces enhance one another and which do not. It is also important to know where your brand has a competitive advantage.

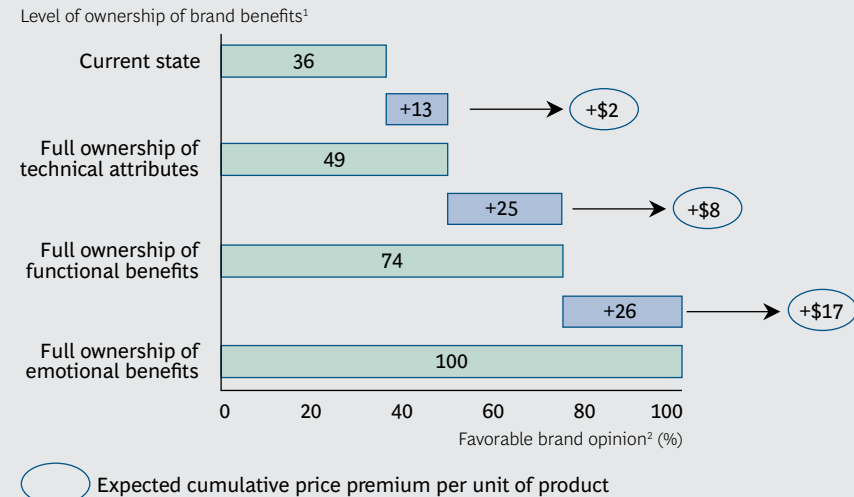
Step 3: Identify the Brand Benefits Needed to Win. Now it’s time to build the brand benefit ladder, using the market space and the key emotional benefits as a starting point. Link each emotional benefit to the corresponding functional benefits or technical attributes that will make it real for the consumer. Research and analytics can help establish these links with quantitative precision rather than instinct and guesswork. Then companies can compare the prioritized list of technical attributes and functional benefits, along with key trade-offs, to their current product or service offering—and will likely find critical gaps. Be sure to factor in competitors’ offerings and capabilities. Final brand-investment decisions can be made on the basis of these findings, and executives can demonstrate the financial value of delivering each layer of the brand ladder. (See Exhibit 2.)

Step 4: Develop a Brand Execution Strategy and Playbook. The final step is to align the organization around the new brand. Senior executives must translate the brand positioning into something that can be communicated, understood, and acted on by all employees. Each relevant function needs an action plan for internal execution. At the same time, marketing must work with external advertising and public relations partners to develop communication plans that align messaging with the new emotional benefits and brand positioning. Together, these plans should create an integrated brand experience for the consumer. When a company has established effective “brand mirroring,” each employee experiences and describes the brand in exactly the same way that the customer does.

A brand-centric transformation program can improve all aspects of *brand delivery*—from strategy, repositioning, and execution to organization and capabilities. Companies must also track *brand impact* by measuring brand equity, valuing the brand, and building brand reporting systems that can show how brand metrics tie directly to the financial performance of the company and its valuation.

EXHIBIT 2 | Owning the Entire Brand Benefit Ladder Delivers Greater Financial Upside

Expected improvement in brand opinion and price premium



Sources: Illustrative example; BCG analysis.

¹Proportion of consumers who associate the brand with the specific benefit, such as quality, convenience, or affordability.

²Proportion of consumers who say that this is their preferred brand.

IN TODAY'S MARKETING landscape, the basics of brand management may seem obsolete compared with the latest digital tools and trends. But some things never go out of style. Company executives must reject complacency, rethink old ways of tackling brand issues, and apply a new, more disciplined approach. The result will be a brand-centric transformation that goes well beyond messaging and "the creative" to strengthen every aspect of the business.

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This article was excerpted from Brand-Centric Transformation: Balancing Art and Data.

BRANDING

FUELING GROWTH THROUGH WORD OF MOUTH

INTRODUCING THE BRAND ADVOCACY INDEX

SMART MARKETERS HAVE LONG understood that word-of-mouth recommendations from consumers—that is, *brand advocacy*—have greater impact on sales than any other source of information. And it's not just that positive buzz moves the financial needle forward. Negative word of mouth from brand critics can push results in the opposite direction.

Despite the relevance of brand advocacy, companies have struggled to measure it in the marketplace, demonstrate its top-line impact, and develop tactics that improve word of mouth. To address these gaps, BCG has created the Brand Advocacy Index (BAI), a strategic metric that measures advocacy with much greater precision than existing approaches.

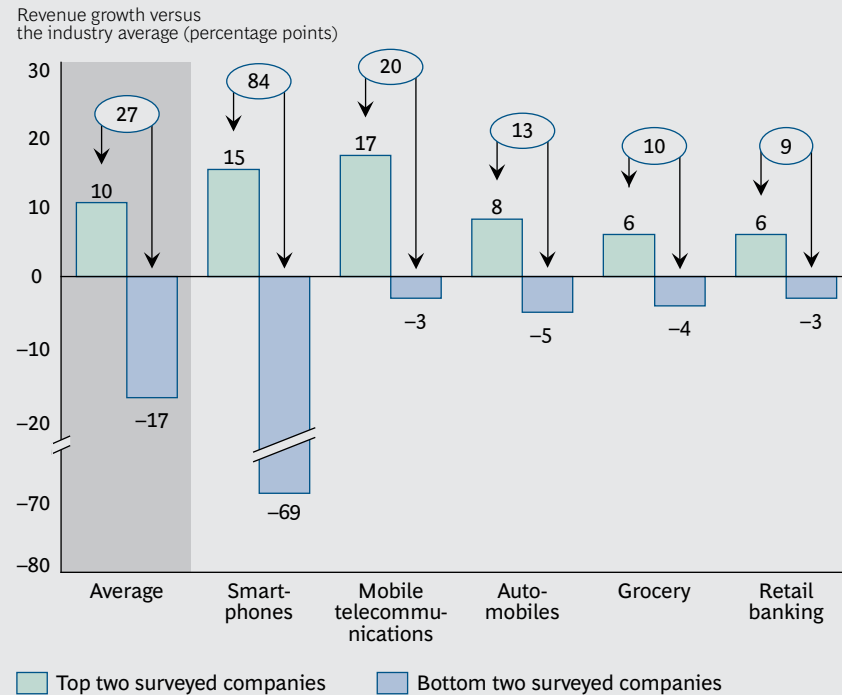
Extending beyond those measures, BAI displays a strong correlation with top-line growth. A recent BCG study of more than 300 brands in 12 industries found that a company's BAI score and its top-line growth had a very strong positive correlation—81 percent, or double that of other measures of customer promotion. (BCG measures BAI's effect on growth using the correlation coefficient known as Pearson's *r*.)

BCG's analysis shows that the revenue growth of brands with the highest advocacy levels significantly outperforms that of heavily criticized companies. In the sample studied, we found the average difference between the top-line growth of the highest- and lowest-scoring brands was 27 percentage points. Over time, that difference separates leaders from laggards. (See Exhibit 1.)

In addition to using advocacy to drive measurable growth, brands can also pinpoint the identities and motivations of often overlooked advocates,

EXHIBIT 1 | Brand Advocacy Separates the Leaders from the Laggards

Average top-line growth differential between the top- and bottom-scoring surveyed companies, by BAI



Source: BCG analysis.

Note: Top companies include the top two BAI scorers surveyed in each industry, and the bottom companies include the bottom two BAI scorers surveyed in each industry. Revenue growth refers to organic revenue growth. The automobile industry includes only nonluxury brands.

uncovering the relative influence of both customers and noncustomers in driving recommendations, as well as the rational and emotional factors that motivate both groups to recommend a brand. Companies can determine who recommends a brand and who does not, helping them identify the most and least successful tactics for improving advocacy.

Although the advocacy level varies widely by industry and country, we have not found a single category in which advocacy is irrelevant. In this report, we open a window onto the precise mechanisms for measuring and managing brand advocacy. By harnessing these insights, any brand can fuel growth.

Identifying Pockets of Outperformance

Our metric shines a spotlight on the companies that have achieved the pinnacle of word-of-mouth recommendations. To understand where companies stand, we surveyed more than 32,000 consumers in France, Germany, Spain, the UK, and the U.S. For a list of the brands that respondents recommended most, see Exhibit 2.

The results highlight pockets of superb performance across markets. For example, nonluxury automobiles have an industry average BAI score of 50 percent, well above average levels in other industries. Brands such as Volkswagen perform well across multiple countries. However, we have noticed that, in many cases, the biggest brands do not score the highest on advocacy in a market. Consider grocery retailers or retail banks: the top three most recommended brands do not always include those from the largest companies. In addition, some brands make it to the list owing to specific drivers of advocacy that matter more in a particular market. For example, on the basis of its high value for money, Czech carmaker Skoda ranks the highest in Germany on advocacy even though it is not a German brand.

Revealing What Turns Consumers into Brand Advocates

Because the BCG methodology asks explicitly for the reasons consumers recommend or criticize a brand, BAI uncovers the exact factors that drive positive and negative advocacy. Our methodology measures up to 12 industry-specific factors—both rational and emotional—that influence recommendations. Factors include performance, customer service, social responsibility, brand identification, design, and value for money—that is, the right combination of price and quality.

Our research shows that a small number of these factors have an outside influence on recommendations across industries. In all five countries studied, value for money was consistently among the three factors that most influenced recommendations. Customer service was in the top three for grocery, mobile telecommunications, and retail banking, and both performance and design were in the top three for the smartphone and automobile industries. Some factors—such as assortment of products in the grocery business or network quality in mobile telecommunications—are primarily relevant to a subset of industries.

For many businesses, such technical or functional benefits are the “table stakes.” They remain the top drivers in every industry, and without outstand-

EXHIBIT 2 | Most Recommended Brands, 2013

	Automobiles (nonluxury)	Smart- phones	Grocery	Mobile telecommuni- cations	Retail banking
Top brands, by BAI	<ul style="list-style-type: none"> Volkswagen (France): 65% Toyota (France): 65% Skoda: 63% 	<ul style="list-style-type: none"> iPhone (France): 60% iPhone (UK): 57% Samsung (Germany): 55% 	<ul style="list-style-type: none"> Mercadona: 54% Trader Joe's: 49% Wegmans: 48% 	<ul style="list-style-type: none"> Free: 50% Virgin (U.S.): 43% Tesco Mobile: 38% 	<ul style="list-style-type: none"> First Direct: 52% Boursorama: 49% USAA: 44%
Industry average BAI	50%	46%	24%	20%	10%
United States	<ul style="list-style-type: none"> Kia: 63% Honda: 63% Hyundai: 63% 	<ul style="list-style-type: none"> iPhone: 54% Samsung: 43% Motorola: 38% 	<ul style="list-style-type: none"> Trader Joe's: 49% Wegmans: 48% Publix Super Markets: 42% 	<ul style="list-style-type: none"> Virgin: 43% TracFone: 35% Verizon: 27% 	<ul style="list-style-type: none"> USAA: 44% Ally: 24% American Express: 23%
United Kingdom	<ul style="list-style-type: none"> Volkswagen: 60% Nissan: 55% Toyota: 52% 	<ul style="list-style-type: none"> iPhone: 57% Samsung: 46% HTC: 37% 	<ul style="list-style-type: none"> Aldi: 42% Lidl: 38% Waitrose: 35% 	<ul style="list-style-type: none"> Tesco Mobile: 38% O2: 26% Three: 22% 	<ul style="list-style-type: none"> First Direct: 52% Lloyds: 10% HSBC: 8%
France	<ul style="list-style-type: none"> Volkswagen: 65% Toyota: 65% Citroën: 50% 	<ul style="list-style-type: none"> iPhone: 60% Samsung: 49% Sony: 45% 	<ul style="list-style-type: none"> Lidl: 28% Leclerc: 27% Auchan: 21% 	<ul style="list-style-type: none"> Free: 50% Virgin: 24% Orange: 19% 	<ul style="list-style-type: none"> Boursorama: 49% Crédit Mutuel: 28% La Banque Postale: 22%
Germany	<ul style="list-style-type: none"> Skoda: 63% Volkswagen: 55% Ford: 51% 	<ul style="list-style-type: none"> Samsung: 55% iPhone: 53% HTC: 49% 	<ul style="list-style-type: none"> Kaufland: 22% Globus: 21% Lidl: 18% 	<ul style="list-style-type: none"> Fonic: 34% O2: 21% Deutsche Telekom: 16% 	<ul style="list-style-type: none"> ING DiBa: 34% Volksbank: 19% Postbank: 16%
Spain	<ul style="list-style-type: none"> Volkswagen: 58% Toyota: 54% Seat: 45% 	Not available	<ul style="list-style-type: none"> Mercadona: 54% Lidl: 44% DIA: 36% 	Not available	<ul style="list-style-type: none"> ING Direct: 43% Sabadell: 12% BBVA: 10%

Source: BCG analysis.

Note: BAI scores reflect customer opinions only. The sample size was too small to list brands in the smartphone and mobile-telecommunications industries in Spain.

ing performance on such factors, a brand is unlikely to earn consumers' high recommendations. But we find that once companies in many industries master these rational drivers of advocacy, an emotional connection can separate the most recommended brands even further from the rest, particularly in categories such as apparel, in which an emotional connection remains a strong differentiator. When consumers have a strong emotional connection with a brand and their rational needs are met, they are likely to recommend a brand spontaneously and without prompting, providing what is, by a wide margin, the most powerful form of advocacy.

Even in industries that do not score as high in advocacy, some companies have found ways to far exceed their industry's average, thanks to a combination of rational and emotional factors. Grocery retailer Trader Joe's, Spanish grocery chain Mercadona, and insurance and financial services company USAA score particularly high on emotional factors, helping them outperform their industry's BAI. For some companies, that comes from establishing a connection with consumers' lifestyle, passions, or interests. For organizations such as USAA, for example, the connection comes from its alignment with the values of the U.S. military community.

Besides these factors, brands can differentiate themselves in many other ways. Some brands have defied convention in their industry, driving recommendations on the basis of factors that did not initially seem relevant. For example, good customer service has driven advocacy in banking for many years. Although this factor is still important, it is no longer the only basis of competition. A wave of challengers such as online banks have focused on delivering solid value for money in addition to good customer service. (In banking, value for money often refers to lower commissions or higher interest rates.) For instance, ING DiBa's advocacy level was the highest of all retail banks in Germany. The online bank strongly separates itself from the competition on the basis of both an excellent online experience and good value for money, due to its low fees and high returns.

Individual markets have their own nuances, of course. What works well in one may not work that well in another. Consider the case of the Samsung and iPhone smartphone brands in Germany. Samsung slightly leads on consumer recommendations for technical performance and slightly lags behind on design, but it is much farther ahead of the iPhone brand on value for money. Even though technical performance and design rank above value for money with the average smartphone buyers we studied, value for money

ultimately matters the most to German consumers, contributing to Samsung's lead on advocacy in Germany, while it ranks second in other countries we studied. For the past three years, sales of Samsung smartphones in Germany have exceeded sales of iPhones by nearly 70 percent, in part a result of that lead.

Uncovering Overlooked Sources of Influence

In addition to explaining what drives advocacy, BAI also helps companies understand the motivation of everyone who recommends a brand. For example, our approach to measuring advocacy sheds new light on the importance of noncustomers in driving advocacy. Without a view of both positive and negative advocacy among noncustomers, companies may be missing the complete story.

We have found two categories in which noncustomers can be influential sources of positive recommendation: automobiles and smartphones. In both categories, the leading brands have invested heavily in creating an aspirational feeling around their products—to the point that, in many cases, even noncustomers feel attracted to the brands. In addition, the products in both categories are heavily experiential: noncustomers are easily able to see and feel their technical and functional benefits, and they often share their opinions about a product's advantages with others.

But not all noncustomers feel positively about a brand. Consider the case of a large U.S. bank with a very low BAI—33 percentage points below average, by far the worst performance in the U.S. The score was surprising because the level of advocacy measured by more traditional mechanisms showed only moderate underperformance compared with competitors. These metrics had, however, failed to take into consideration the criticisms of noncustomers. When the critics' voices were incorporated into a BAI analysis, the company's advocacy level dropped significantly. The volume of critics and the intensity of their comments were the legacy of years of losing dissatisfied clients, who actively shared their frustrations about the brand in conversations with friends and colleagues.

Using BAI to Drive Growth

With BAI data in hand, companies can make fact-based decisions as they identify and prioritize critical areas of brand strategy and customer experi-

ence as part of a larger effort of brand-centric transformation. (See *Brand-Centric Transformation: Balancing Art and Data*, BCG Focus, July 2011.) More concretely, BAI can assist decision makers in their resource-allocation and advocacy-marketing efforts.

We have identified three primary actions that brands can take after exploring advocacy using our metric.

- *For areas in which the brand is weak, executives should prioritize actions that have the highest potential to transform the business and drive advocacy.* Retailers might develop programs, such as for lowering prices or improving product quality, on the basis of what drives advocacy. For brands that have low levels of consumer identification, companies can showcase innovation and burnish the company's image. For those with weak results in terms of value for money, transformational efforts may be needed to improve the cost structure, use of assets, sourcing and procurement, and pricing. Structural weaknesses may require significant improvements in both the design and the execution of the customer value proposition. Chief marketing officers and chief financial officers can also prioritize brand investments that are likely to have the most positive impact on sales.
- *For areas in which the brand is strong, companies should build on specific brand advantages to drive advocacy.* If a company's brand is not being recognized by consumers for a particular strength, the company can find strategic opportunities associated with areas in which its brand already leads and with specific factors that matter in its industry. A brand can also involve its network of existing customers and, potentially, noncustomers as advocates for its strengths in a way that can be more effective than other methods. A combination of targeting the right consumers, creating powerful and disruptive messages that strike an emotional chord with consumers, and building long-term relationships that are based on an understanding of the dynamics of advocacy has, in many cases, proved the key to success.
- *Decision makers should focus on the right segments.* Getting a complete view of advocacy helps companies as they target specific brands, product and service categories, countries and regions, and groups of customers and noncustomers. A detailed analysis using BAI can reveal areas that could be improved with digital marketing to underpenetrated segments. Or it

may inform brand-repositioning efforts in which focused attention can generate significant value for a relatively small investment. The analysis can also help companies focus on increasing word of mouth among their most profitable customers.

In addition to guiding brand transformation, our approach to measuring advocacy offers unique insights into broader issues of, for example, operations, customer service, and loyalty programs that could be improved with a better understanding of the specific brand attributes that customers value.

BCG designed and launched an advocacy-marketing program for one of the smaller brands of a European packaged-goods company. Although this brand had a strong emotional connection with consumers and ambitious expansion plans, it lacked the critical mass of customers to support the high levels of media advertising required to match the competition.

The advocacy-marketing program for the brand took advantage of its powerful brand equity to build a connection with the passions and interests of important consumers in the regions targeted for expansion. Relying mostly on experiential offline and digital efforts, we designed a multiyear plan that required a media investment that was just 25 percent of that of the brand's key competitor.

Less than a year after launching the program, the company was already seeing impressive results. Recommendation levels had increased significantly in the regions and target segments that the company had aimed to influence. This in turn drove BAI up 25 percent to twice the score of the company's main rival. It also increased brand affiliation by 50 percent and multiplied purchases by a factor of three.

IN AN ENVIRONMENT of constrained resources, some smart companies are looking to add advocacy to their traditional marketing mix. These forward-looking organizations want to build long-term relationships, not just hits and buzz. But many still labor with obsolete metrics and struggle to discern which actions produce results.

BAI offers brands an efficient way to measure this vital leading indicator, while maximizing scarce resources and driving growth. For companies ahead of the curve, our approach to measuring advocacy confers a significant

advantage. For those relatively rare brands that can build an emotional connection with consumers in advance of the competition, that competitive position can be difficult to dislodge.

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This article was excerpted from Fueling Growth Through Word of Mouth: Introducing the Brand Advocacy Index.

FURTHER READING

"Hotel Brands: The Devil Is in the Delivery," BCG Article, October 2013

Luxury Ecosystems: Controlling Your Brand While Letting It Go, BCG Focus, June 2013

"PepsiCo's Salman Amin on Building Global Brands in the Digital Age: An Interview with the Company's Executive Vice President and Chief Marketing Officer," BCG Article, April 2012

SALES

A DARWINIAN MOMENT IN SALES FORCE EVOLUTION



THE SALES FORCE of the twenty-first century differs from its predecessors—in profound ways. It is adapting, out of necessity, to waves of upheaval in channels, technology, customers, and sources of growth.

In this turbulent and competitive environment, sales evolution is not a choice. It is a requirement for survival. Companies with dynamic records of sales achievement and evolution understand particularly well that they must continue to lead or become laggards in the Go-to-Market Revolution.

Some companies are managing to adapt their models with outstanding results—often increasing revenue incrementally by 10 percent or more. They are investing in platforms, advanced data, and analytics to map their customers, understand customer pathways, and measure and refine ROI. They are dissolving boundaries between marketing and sales. And they are casting sales reps in stronger roles and equipping them with high-tech, customer-centric tools.

Alternatively, some smart companies in mature markets are winning simply by making their sales forces dramatically more efficient.

Sales, in any case, lie at the core of the overall growth agenda and of the Go-to-Market Revolution. And sharpening sales force effectiveness provides a means of jump-starting that growth. The first article in this chapter outlines a process for assessing, rethinking, and honing sales capabilities to make even the highest-performing teams more productive. It examines improvement and transformation opportunities in each of the five components of selling: targeting, deploying, executing, engaging, and enabling.

Activating a sales force for rapid growth offers another powerful path to generating an immediate and sustainable revenue boost, as the second article in this chapter discusses. Sales force activation focuses on extracting more value from a company's current base—its existing customers, product

and service offerings, and the sales organization itself. These existing assets often have significant untapped profit potential. Three companies profiled in this chapter increased their revenues by pursuing sales activation.

Focusing on key accounts can also accelerate growth in the new environment, as the third article in this chapter discusses. For many companies, the importance of key account management will continue to increase, as customer segmentation and shared value creation become critical competitive differentiators.

SALES

JUMP-START GROWTH BY SHARPENING SALES FORCE FOCUS

EVERY SUCCESSFUL BUSINESS understands the critical importance of effective selling. Too often, however, sales force effectiveness decreases over time. The reasons are varied. Bad habits take hold, paperwork gets in the way of face time with customers, incentives become misaligned with objectives, managers don't spend enough time coaching in the field, or sales reps focus more on products than on customer needs. In other cases, the sales force loses sight of which accounts are actually generating a profit once sales costs and support are factored in. As a result, most companies are leaving money on the table and growing more slowly than they could. Some are even losing money on high-touch customer accounts.

By rethinking the most important aspects of the sales process and pulling the right levers, managers can make even high-performing sales forces more productive—and increase the revenues and profits of the business by 10 to 15 percent.

We measure sales-force effectiveness (SFE) by looking at the gross profit per sale, after subtracting all selling costs. In our opinion, a customer-centric approach and a focus on achieving business objectives are critical to success. While we recognize that direct business-to-business selling is occurring more and more in a multichannel environment, the traditional sales force is still a very effective way to generate demand.

Every company will have a different starting point and a different end goal when it comes to increasing sales force effectiveness. Some businesses will seek to continually refresh their sales capabilities; others will aim for a longer-term transformation. The key is to understand where the critical areas for improvement are by diagnosing all aspects of selling and support—and targeting those with the biggest upside potential.

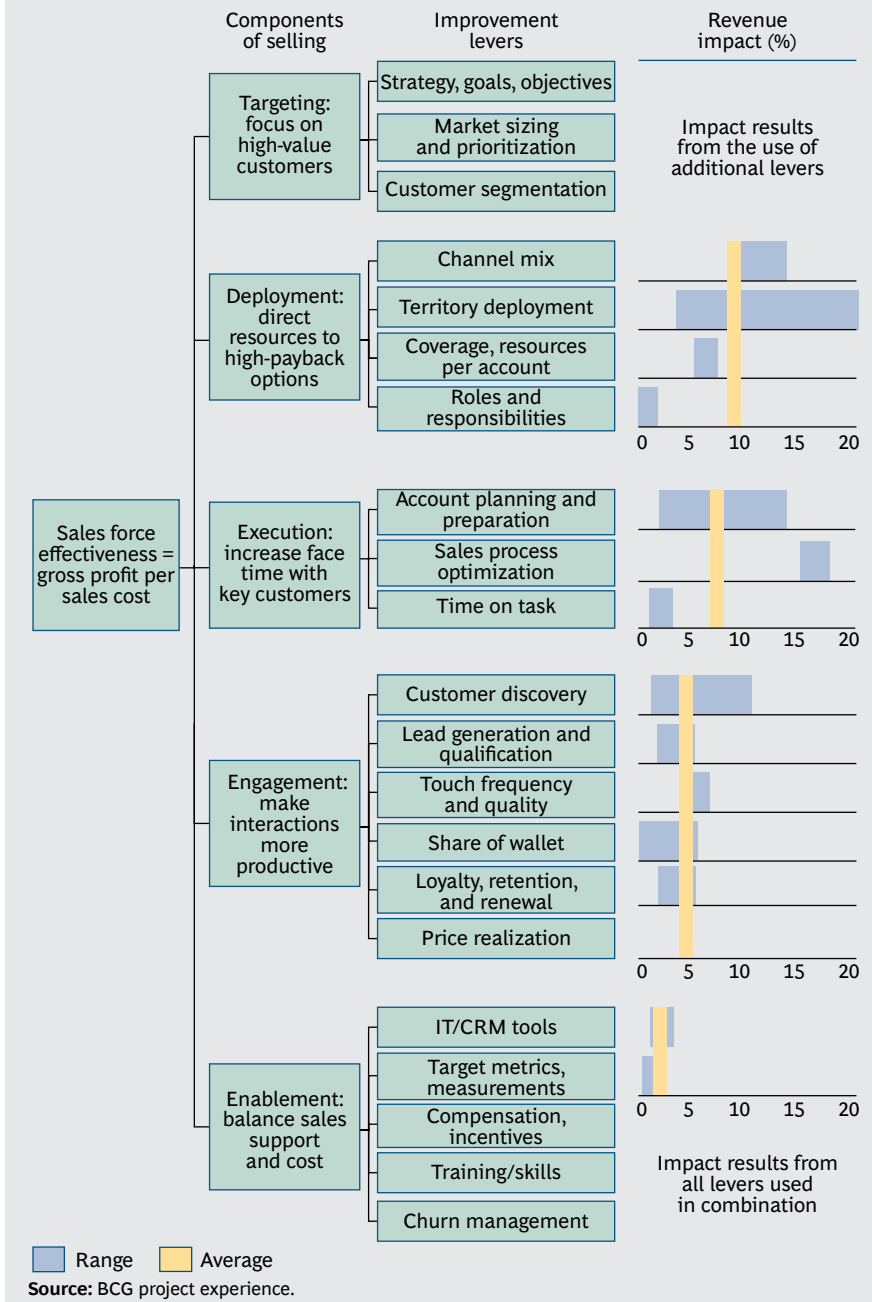
Five Areas of Attack

Opportunities for improvement and transformation lie in each of the five key components of selling: *targeting*, *deploying*, *executing*, *engaging*, and *enabling*. As shown in the exhibit on the next page, each of these areas has specific improvement levers, all of which are interconnected. Some companies choose to tackle many levers at once for a broad-based transformation of the sales force, while others achieve meaningful results by first focusing on a subset of levers and then addressing others over time. An initial analysis and diagnostic can identify the areas with the greatest improvement potential. Moreover, we've quantified the results that each lever delivers, on the basis of our experience with a wide range of companies.

Let's examine each component of sales and its improvement levers more closely.

- *Targeting: focus on markets and customers with the highest value.* Defining a clear sales strategy and goals, understanding the market, and prioritizing the customer accounts to go after should be table stakes for an effective sales organization. But too often, sales teams approach these levers with insufficient rigor or use incomplete or outdated information. A quick review of customer segments, for example, often reveals a lack of meaningful detail that sales reps can act on. Without greater insight into the needs, buying patterns, and overall value of different customers, the sales force has no way of knowing where to focus its activities. But too much data can be overwhelming. The key is to clarify where the highest-value opportunities lie, so that sales reps can prioritize accordingly.
- *Deployment: direct sales resources to opportunities with the biggest payback.* As businesses become more complex, clarity about where to deploy resources is increasingly elusive. Multiple factors, such as products, customers, competition, geographies, channels, and industries, come into play and must be matched against numbers and types of resources. Since needs inevitably overlap, decision making about how best to deploy resources given numerous market opportunities becomes that much more complicated. Typically, these decisions involve trade-offs and require a deep understanding of customers in order to identify, for instance, accounts in which direct selling is either inefficient or ineffective. Even the best companies can benefit from a systematic, data-driven review of how they deploy their salespeople. This type of analysis can reveal critical gaps and

Each Component of Selling Presents Opportunities for Transformation



significant improvement opportunities that—if addressed—can boost revenue by 20 percent.

- *Execution: increase face time with key customers.* Sales reps who spend less time on low-value administrative tasks can spend more time selling or deepening their relationships with customers—which ultimately will increase their productivity. To this end, we recommend three levers. First, make sure that sales reps are thorough in their account planning so they know where and how to spend their time most effectively. Second, make the sales process, tools, and handoffs as streamlined and simple as possible—perhaps by using digital tools to reduce costs and increase efficiency. And finally, identify and try to minimize the tasks and activities that take the sales force away from customers. Each of these levers involves a fairly significant effort but can have a major impact on productivity, so companies should zero in on the ones with the most upside potential. The payback will be worth it: the typical revenue impact is between 5 and 10 percent and can exceed 15 percent in some cases.
- *Engagement: make customer interactions more productive.* Sometimes just improving how leads are generated and vetted can lead to better outcomes. But as a rule, greater upfront research and planning can help reps get far more out of both initial sales calls and visits with existing customers. By exploring the full range of customer needs, taking advantage of every cross-selling opportunity, and finding out if and where price sensitivities exist, sales reps can optimize their share of wallet. Often, simply understanding how frequently sales reps interact with customers, the quality of those interactions, and how well reps perform on renewals relative to the competition can lead to important insights. Again, the key is to quickly identify the things that will make the biggest difference. Improvements in this area typically increase revenues by 5 percent.
- *Enablement: find the right balance between sales support and cost.* Supporting the sales force is critical, but some tools and benefits may cost more than the actual value they deliver. By evaluating sales coaching and management, software tools, training programs, support manuals and brochures, incentives, and compensation packages, companies can weigh the cost-value trade-offs and make informed decisions about which ones are the most effective.

Because every situation is different, the right solution—and the bottom-line impact delivered—will depend on your company’s starting point, industry, and competitive position.

SFE in Action

Many companies, even those with world-class sales forces, realize that they have a problem when revenue growth slows—despite significant increases in sales resources. The telltale signs may include lower sales levels, complaints from top customers that they rarely hear from their account managers, new entrants gaining market share, or the departure of top sales reps.

An end-to-end analysis of the five areas outlined above typically reveals a range of problems with targeting, deployment, engagement, and execution. For example, sales reps may be focusing more on large but slow-growing customers than on accounts with low penetration and high potential. Or there may be little correlation between the size of an account and the number of sales reps assigned to it full time. Often, sales territories are too large, unwieldy, and unfocused to cover in a meaningful way. As a result, potential customers are underserved, and sales reps—because they don’t contact accounts more often—lose out on opportunities to explore customer needs and provide information on products that could meet those needs.

The solution could be to move from a product-centric to a customer-centric organization and improve global teamwork. By shifting resources to the highest-value areas and bringing in teams of functional and industry experts, companies can better address customers’ specific needs. Smaller territories and greater focus can help, too. Sales reps with more manageable territories—whether because they have fewer accounts or have been assigned to a targeted geographic area—can invest more time in building customer relationships. In our experience, this approach delivers sharp improvements in sales performance metrics. Typically, revenue and quota attainment increase by 20 percent or more, and sales productivity improves by double-digit percentage points.

When Transformation Is the Objective

The same principles can be tailored to larger, more transformational efforts. For instance, we worked with a major pharmaceutical company that was about to launch three new products but had a costly selling model and a limited budget with which to increase the sales force. Because of these

constraints, the company had to sharply improve the efficiency and productivity of its existing sales reps. The solution was a multiyear transformation that addressed many SFE levers, with a special focus on the enablement area and providing better support to the sales reps.

An initial diagnosis revealed that the first-line sales managers and the length of time they'd been on the job were the biggest factors driving sales performance—not the sales reps themselves. These experienced managers knew their regions and territories, their customers, and the strengths of their reps far better than their less experienced peers, and they were able to coach and manage more effectively. The less experienced managers spent less time in the field with the sales force, less time on calls, and less time coaching sales reps.

Given this insight, a key part of the SFE program was to develop a training program for these front-line supervisors. After testing and refining the program around the world, the company set up a global academy with international training centers to increase the overall discipline, standardization, and professionalism of the sales process and sales force. Account management and performance management are now important parts of selling. All members of the sales force have tools to monitor how accounts are doing, view market share, and manage their territories. Reps and their sales managers are given clear KPIs that measure the quantitative aspects of performance, such as activity levels and results, as well as qualitative factors such as call quality for reps and coaching effectiveness for line managers.

The impact of the transformation was significant. Sales activity grew by more than 30 percent with no additional hiring, while revenue and market share for three important brands increased substantially—by 10 percent on average in one key country. Driving these results were significant improvements in sales force activity. Calls per sales rep jumped by more than 25 percent, compliance with plan grew by 30 percent, and sales managers increased their coaching time by 55 percent.

Getting Started

Choosing which levers to focus on is just the beginning. A good next step is to review the key lessons we've distilled from our work and experience. As noted in the sidebar "Lessons from the Front Line," it's a good idea to start with focused, visible efforts. Be sure to carefully sequence the initiatives and create an improvement agenda with a manageable number of levers to start

LESSONS FROM THE FRONT LINE

Based on our work with leading companies in a wide range of industries, we've distilled a number of key insights for improving SFE:

- Look beyond the sales force. Think globally and across channels to achieve greater impact.
- The initial diagnostic builds the case for change, drives buy-in, and is the basis of a road map forward, so make sure it sets up the larger opportunity.
- Customer input brings credibility to the diagnostic and helps the improvement program get early commitment from sales managers and reps.
- A flexible, collaborative approach wins over sales teams and makes it easier to get their buy-in.
- Start by fixing the basics, and use the savings and revenue increases to fund a broader transformation.

The key is to think big but start with focused, visible efforts. Look at the global picture while systematically reviewing the end-to-end sales process. An analysis and rapid diagnostic will reveal the biggest improvement opportunities—and the levers that will have the greatest impact.

with. A few quick wins can build enthusiasm and momentum—and won't overwhelm the sales function.

As with any major improvement effort, an SFE program is an exercise in change management and behavioral adaptation that must be driven by business executives and line management—not just sales leaders. Major change starts with a clear understanding of why an improvement in the sales force is necessary and what lies at the end of the road. This clarity must come from top executives and be communicated to all levels of the organization. It is also critical to have agreement among business and sales executives on the goals of the SFE program and how to achieve them.

Even with a clear vision and executive alignment, SFE success will be elusive without rigorous program management that includes clear milestones and accountabilities, effective project teams, and strong stakeholder engagement. Without a high degree of executive commitment and over-

sight, high-potential initiatives often become watered down or programs lose momentum.

Sales force effectiveness is a key driver of revenue growth, which in turn drives a company's shareholder value. In fact, BCG research shows that revenue growth is the single most important driver of long-term value creation. By following our SFE approach, even world-class sales organizations can grow revenue, cut costs, increase margins, and boost their overall effectiveness.

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SALES

ACTIVATING THE SALES FORCE FOR RAPID GROWTH

WHEN THE NEXT SEVERAL quarterly sales forecasts look disappointing, senior executives under pressure to deliver need effective *short-term solutions*, not long-term strategies. With a quarterly horizon, there's not enough time to develop entirely new products, new customers, and new markets. One way to generate an immediate but sustainable revenue boost is simply to focus on getting more from the current customer base, product and service offerings, and sales organization.

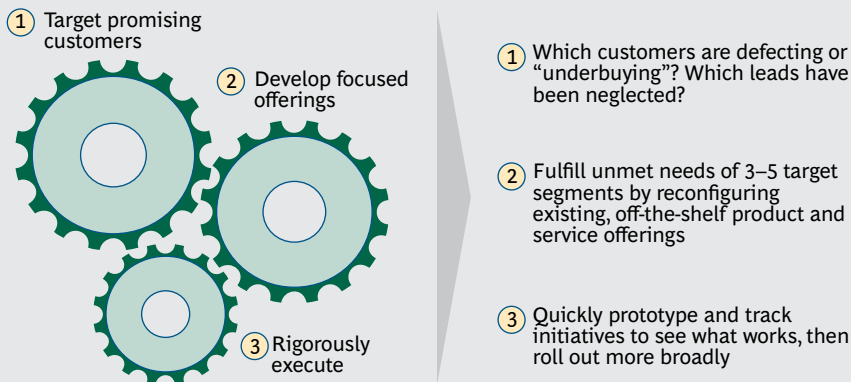
We often find that these existing assets are underproducing and have significant untapped profit potential. However, it is not always apparent how to make these assets more productive, and we frequently see scattered initiatives to improve performance. Such efforts tend to fall short and typically turn into the "flavor of the month." We have worked with a number of clients to implement a focused, low-risk, cost-effective approach—which we call *sales activation*—that can quickly deliver significant, sustainable results. For instance, the three companies profiled below have increased their revenues by 10 percent or more by pursuing the sales activation approach. Sales activation focuses on a handful of high-impact initiatives and rapid execution for a quick turnaround in performance.

Three Steps to Activation

Sales activation has three basic steps. (See Exhibit 1.)

Target the most promising customers. An analysis of the purchase patterns of existing customers can identify not only who is "underbuying"—or even defecting—but also neglected leads that haven't been pursued. Existing sales data usually reveal a range of opportunities to activate dormant customers. We have found that it is critical to select only three to five target customer segments to prevent the effort from collapsing under its own weight.

EXHIBIT 1 | Sales Activation Has Three Steps



Select only a few initiatives to drive early success

Source: BCG analysis.

Develop focused offerings for each target segment. For each of the three to five target customer segments, determine their immediate unmet needs, such as better product information, greater technical support, or more delivery options. Then, meet those needs by using off-the-shelf elements of your company’s existing product offerings. This may require making adjustments to pricing, service, delivery channels, sales approaches, or contact frequency. The goal should not be fundamental innovation but rather a repackaging of existing product or service offerings to fit segment-specific needs and expectations. Develop a handful of high-impact initiatives related to each target segment.

Rigorously execute—and track results. Rapid prototyping and close monitoring of the chosen initiatives will reveal what works in the marketplace and what doesn’t. Start with pilot initiatives in one or two representative or important regional markets. If the changes involve repackaged product or service offerings, make sure that your sales reps are adequately trained. Not every pilot will be successful, and that is okay—but those that show promise warrant a rapid, company-wide rollout.

The key is to learn from mistakes and move on. In our experience, successful companies typically test three to six pilot initiatives. Too few experiments, and the odds of success are low; too many and it may be hard to determine what’s working. Better to have fewer cycles of testing, learning, and improving—and give each cycle the attention it requires.

Sales Activation in Action

The following examples explore the experiences of three companies that pursued sales activation efforts tailored to their specific circumstances—and achieved significant revenue gains. Each example emphasizes a different lever of the sales activation approach: identifying and managing leads; working with intermediaries; and improving customer contact.

IDENTIFYING AND MANAGING LEADS

A global automobile manufacturer was experiencing weak sales in its European dealer network. Management suspected that salespeople were relying on discounting instead of working aggressively to follow up on leads. Previous analysis indicated that a disciplined approach to identifying and managing leads would pay off in short order.

The manufacturer worked with a few motivated dealers to develop a list of customers with growth potential, prioritizing the most appealing customer segments and developing practical offerings to match segment-specific needs. The company then launched five initiatives that could be rapidly implemented. One initiative entailed having telephone reps contact inactive customers who had purchased their last car four to six years ago, offering them a free appraisal of the car they had bought for a potential trade-in on a new car. The names of customers expressing interest were passed on to their nearest dealers. Another effort targeted small businesses whose fleets were not large enough to justify “key account” status but whose needs differed from those of individual consumers. These targets received a special package with volume pricing and service, and those who responded were also referred to local dealers.

Because the dealers were reluctant to release their customer records to the manufacturer owing to privacy concerns, an outside firm handled the records and contacted inactive customers with the appraisal offer. For the small-business initiative, the manufacturer sent a sales coach to each dealer to train salespeople how to identify and approach these target customers. Once the pilot programs began, the manufacturer closely monitored the progress of each initiative, and it modified dealer approaches as needed to boost close rates.

The manufacturer’s rigorous attention generated rapid learning along the way and prevented some of the initiatives from fizzling out. At first, for example, most of the dealers in the pilot program ignored the leads from the

inactive customer base. The manufacturer had sent leads in the past, but they were generally from untargeted marketing campaigns and yielded very little business—and so the dealers considered them virtually worthless. For the new initiative to succeed, the manufacturer had to prove the relevance of the leads, and therefore invested extra effort in screening them. Having relevant leads to accelerate the sales funnel reinforced the value of the pilot, which demonstrated its impact in a very real and compelling way.

Because of this active engagement and rapid follow-up, the manufacturer was able to quickly determine which pilots were successful. Five months after launching the sales activation effort, and just 13 weeks into the pilots themselves, the initiatives reached the breakeven point. (See Exhibit 2.) The manufacturer then rolled out the pilots to the full dealer network. After 14 months, the initiatives had delivered ten times their total investment and provided the company with a much-needed boost in revenues. The focus on targeted and diligent lead management paid off.

WORKING WITH INTERMEDIARIES

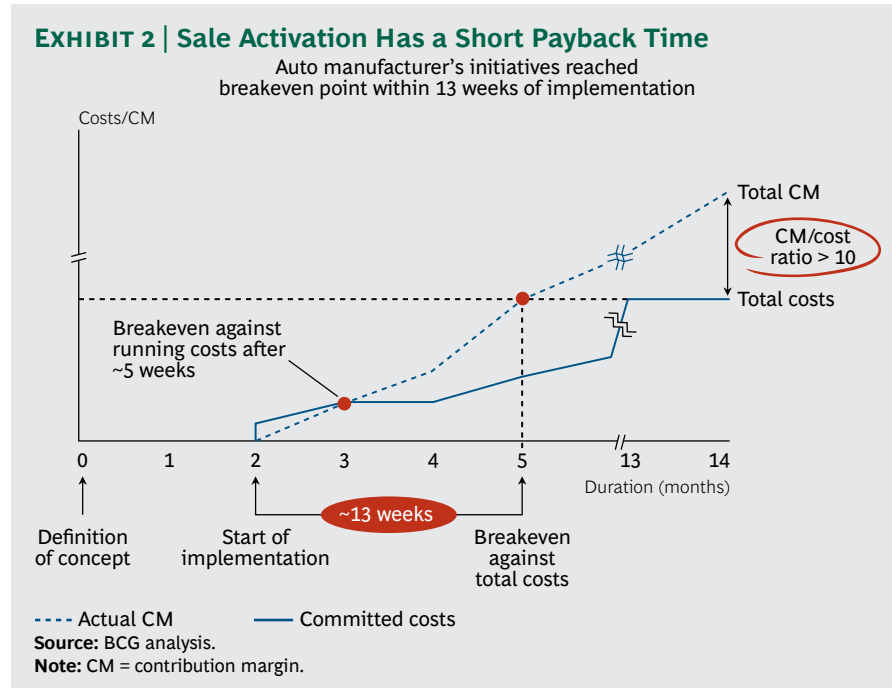
A global food manufacturer wanted to accelerate growth in Europe by increasing sales to outlets such as convenience stores, gas stations, kiosks,

and fast-food restaurants, where shoppers tend to buy takeout food to eat at home. Because consumers' brand preferences are more heavily influenced at the point of sale in these smaller outlets, a compelling product placement was critical to growth—and required working closely with the independent distributors who supplied these outlets.

One key initiative was to show the distributors how to increase their coverage of the outlets during peak sales times by complementing in-person sales calls with telesales—especially for replenishment orders from the smallest outlets. A review of the market revealed a number of weak distributors that were competent at acquiring new customers during the off-peak seasons but lost momentum and sales volume during periods of peak demand. As a result, the manufacturer was losing “share of stomach” to competing food categories. To increase the retention rate and purchase volume of existing retail customers, the manufacturer benchmarked other companies that excelled at selling to these takeout outlets, such as the larger beverage and snack-food manufacturers.

This analysis led to four sales-activation initiatives. The first involved creating the “perfect store” on the basis of a study of high-throughput outlets which revealed the merchandising and product placement that drive impulse purchases. The second initiative involved introducing the concept of sales cycles to distributors. For each two-month period of the year, the manufacturer defined a set of promotions and sales volume goals, and worked with distributors to align their sales activities accordingly—and to keep the manufacturer's products “top of mind” when calling on the target outlets.

The third effort was aimed at strengthening the collaboration between the manufacturer's field reps and the distributors' reps, with a goal of improving overall sales coverage and visit effectiveness. This initiative involved dividing responsibilities, allowing the distributors to “own” the smaller retail outlets while the manufacturer's sales force focused on capturing and activating the larger outlets rather than spending time supervising the distributors. The distributors' reps were trained in how to execute “perfect capture” and “perfect activation” visits. Clear, complementary roles and incentives were defined to support the effort, and visit frequencies and sales approaches were tailored to the different outlet types. The fourth and final initiative showed distributors how and when to complement in-person sales calls with telesales—again, when taking replenishment orders from smaller outlets during peak sales periods, for instance.



A territory in a large city served as the pilot market for testing the four initiatives. The manufacturer's reps spent time coaching the distributors' sales managers, and they jointly defined sales targets and strategies for penetrating new outlets. The manufacturer developed plans and scripts for visits to current customers and potential new outlets. "Perfect store" checklists, daily objectives, weekly result sheets, and monthly incentive scorecards further reinforced best practices and a sense of urgency.

A major goal of the sales activation program was to redirect the field reps from being order-takers to becoming true salespeople. To this end, the program made major changes in compensation plans, increasing variable pay as a percentage of total compensation and placing more pay at risk—with greater upside for superior performance. For example, achieving targets related to "perfect store" objectives would trigger a special bonus, independent of the overall sales achieved by the outlet.

Active week-by-week monitoring and Monday review meetings drove learning and short-cycle improvements, and the program rapidly delivered impressive results. In six months, revenues in the pilot territory increased by 12 percent, at a time when overall sales at outlets with takeout food were down by 6 percent. The pilot has since been extended to multiple regions—and continues to deliver double-digit sales growth.

IMPROVING CUSTOMER CONTACT

A major U.S. automotive service chain was experiencing a worrisome and consistent drop-off in its principal service offering. Franchisees and management cited a host of potential causes outside of their control, such as the tough economy, a category in decline, a growing consumer preference for using car dealers for their service needs, and repair shops that weren't configured for larger sport-utility vehicles. Despite these very real challenges, there was still an opportunity to increase growth and market share. An analysis of the franchisees and their competitors revealed several best practices in the high-performing shops, and wide variation in adherence to those practices among the company's shops. In particular, the analysis showed that employee interactions with customers throughout the sales and service process affected conversion and loyalty rates.

The core opportunity was to improve interaction with the customer at each contact point, from the initial call or visit through service execution and even after-service follow-up. For example, during initial customer calls,

franchise employees tended to act as passive order-takers rather than trying to understand and focus their sales efforts on the customer's needs for price, convenience, or quality.

To address these improvement opportunities, the company worked in partnership with leading franchisees to develop best-practice sales scripts and training for each touch point with customers. The scripts trained the staff members to mention the key service elements that customers were known to care about—such as a complimentary ride home after dropping off a car, or physically showing the customer the repair problem. In addition, the company and leading franchisees jointly designed simple ways for franchises to measure improvement in conversion rates, satisfaction, and after-service follow-up. For most, this was the first time such metrics were ever tracked at the shop level. Further, the regional sales managers' job responsibilities were redesigned to include coaching, reviewing metrics, and working with shop management to improve performance. The training, metrics, and coaching greatly improved customer interactions. In three months, the company was ready to launch a pilot program in a representative metropolitan area.

The efforts paid off. Over the three-month test period, sales in the pilot market rose 11 percent from the previous year, compared with a similar market that grew just 1 percent, mirroring the slow growth of the U.S. economy. Convinced by the progress, the company offered the program to all of its franchises, and within nine months had reversed the sales decline.

Although sales activation has three basic steps, the levers used to drive results must reflect the specific circumstances of the company, as shown in the three examples presented here.

TO ACTIVATE SALES in the short term, we have found that the best approach is to focus on and leverage existing customers, products, and salespeople rather than embarking on long-term product-development or restructuring efforts. Although those more fundamental efforts often become complementary next steps to a sales activation effort, they rarely deliver the rapid results that are needed to meet near-term sales targets. Once near-term targets have been met, the additional revenue from sales activation can often fund a longer-term sales-force transformation.

Our clients have found that activating the untapped potential of existing assets is the fastest way to achieve a turnaround in performance. Before investing in more—more product lines, more salespeople, more channels—make sure your company is getting the most from what it already has. Are you ready to activate your sales?

Mark Lubkeman
Michael Book
Anthony Pralle
Colm Foley

SALES

CREATING VALUE IN KEY ACCOUNTS

KEY ACCOUNT MANAGEMENT (KAM) is falling short of its potential because of four common mistakes. One, the right accounts—those with the highest upside—are not designated as “key.” Two, relative to the resources deployed to serve them, too many accounts are designated key. Three, key account relationships are too often transactional rather than strategic. And four, as a result of the first three mistakes, the accounts that are considered key receive price discounts, but opportunities for joint value creation are lost.

Addressing these challenges requires a concerted effort that starts with understanding both customers’ needs for products and services and how customers want to be served. Frequently, major customers—whether they are called key, strategic, or global—are underserved. One global company with a sprawling and historically successful sales force found that 70 percent of its key accounts were dissatisfied with the relationship. It should be no surprise that sales to those accounts fell short of their potential.

Through effective KAM, we have observed that companies can generally lift revenues by 5 to 10 percent, improve margins by 3 to 5 percentage points, and lower the cost to serve by 10 to 20 percent. Companies achieve these results by enhancing account penetration and retention and by allocating resources more effectively.

The steps toward achieving these results are easy to understand but difficult to implement. Several barriers stand in the way. By overcoming them, companies can successfully capture financial upside opportunities and enjoy a deeper relationship with their most important customers.

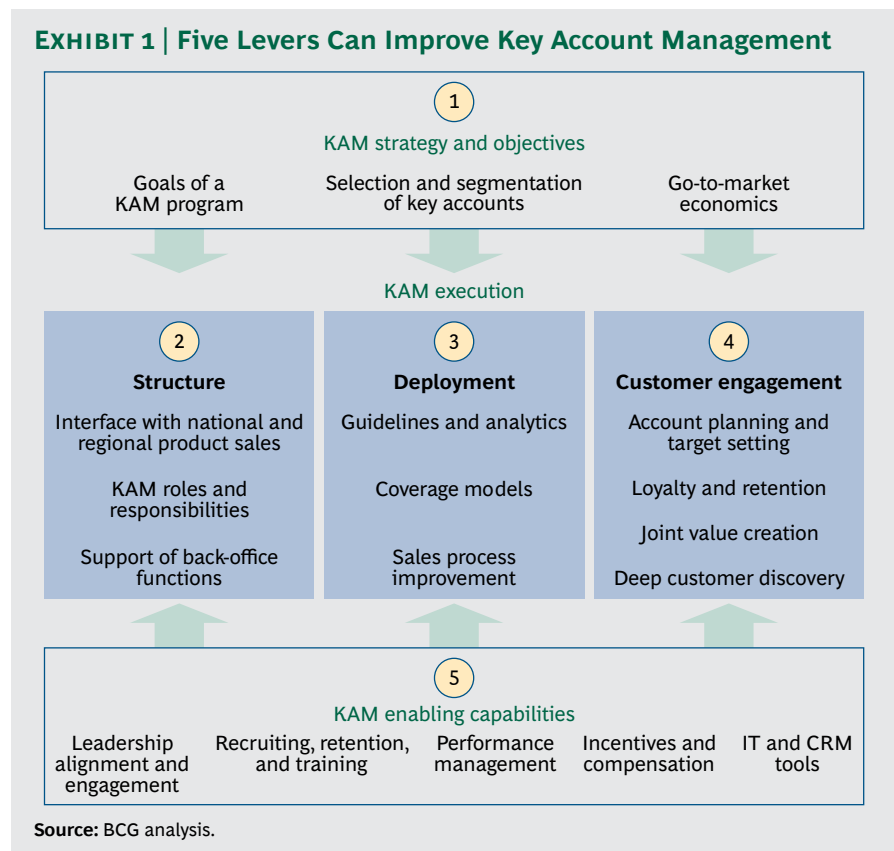
Defining Key Account Management

One of the difficulties associated with KAM is the lack of a common vocabulary. It is more—much more—than just servicing big accounts. KAM

can best be defined as an *enterprise-wide initiative* (involving not just the sales force) to develop *strategic relationships* (not transactional relationships) with a *limited number of customers* in order to achieve *long-term, sustained, significant, and measurable business value* for both customers and the provider.

Patience is necessary. Deep, trusting key account relationships need time to develop and cannot be managed simply by setting quarterly quotas. It is important to focus on share of wallet, rather than just revenues, and to develop ways to measure progress as the supplier builds a special relationship with the customer.

Creating excellence in KAM, as defined, is not easy. It requires the synchronization of five levers—KAM strategy and objectives, structure, deployment, customer engagement, and enabling capabilities. (See Exhibit 1.)



Customizing Key Account Management to Industry Context

Although there are many common themes, each industry faces its own set of KAM priorities. For example, in the technology sector, KAM has been in place for a long time. Companies in this sector are more likely to be optimizing, rather than creating, programs. In order to present a coherent view of an increasingly complex portfolio of products and services, account teams frequently need specialists, whose involvement, in turn, increases the complexity of managing the account. Moreover, frequent acquisition activity in the industry increases the challenges of coordination across business units and the integration of new business lines.

On the positive side, technology products generally require extensive service and implementation follow-up, opening a natural opportunity to develop sustained relationships. Key account managers can play a critical role in helping major customers buy business value rather than “piece parts.”

The core themes of KAM, however, apply across all industries—especially the need to impose discipline in the management of customer relationships.

Caring About Key Account Management

Most management teams already have too many priorities. Why add KAM as a major agenda item? In addition to the financial benefits mentioned earlier, companies with well-developed KAM programs reported 43 percent higher customer satisfaction than those without these initiatives, according to a 2009 survey by the Strategic Account Management Association. Satisfied customers are long-term customers and are more likely to buy additional goods and services.

Frequently, however, the share of wallet—even of customers designated as key accounts—can be as low as 15 to 25 percent. In other words, top customers are buying 75 to 85 percent of products and services from competitors in an addressable market. One of the best ways to recognize the upside value of KAM is to estimate share of wallet for key accounts. It can provide a humbling but motivating perspective.

KAM is especially relevant in today’s “two-speed world,” with developed markets remaining sluggish while emerging markets resume rapid expansion. In stagnant markets, companies will need to gain share in order to achieve acceptable levels of growth. Customers become more risk averse in difficult times and many want to consolidate their business with trusted

vendors. This flight to quality represents an opportunity for a vendor to become a trusted partner and increase share of wallet. Meanwhile, in emerging markets, high-growth companies may reward their most reliable suppliers with attractive contracts as they look to expand.

Visualizing Success

The relationship between Procter & Gamble and Wal-Mart Stores exemplifies KAM's challenges and potential. Before 1987, P&G's interactions with Wal-Mart were mostly adversarial and fragmented, as sales teams of multiple P&G brands pushed inventory and promotions. As the story goes, this all changed when a P&G sales executive took a canoe trip with Sam Walton. During their extended conversation, the P&G executive gained deeper insight into Wal-Mart's dissatisfaction with P&G's approach. Subsequently, he convinced other P&G executives that they needed to start viewing Wal-Mart as a partner. Over the course of several years, the two companies developed a successful strategic collaboration, built around several tenets:

- Recognizing the value of collaboration
- Jointly identifying and addressing major opportunities
- Ensuring interaction and execution at all levels of management, not just the most senior levels
- Trusting one another

With a better understanding of the needs of key accounts such as Wal-Mart, P&G launched several specific multiyear KAM initiatives. P&G created tools to support deeper interaction with key accounts and to prioritize them. It assembled multifunctional teams to serve those accounts and sharpened focus on their profitability by instituting new incentives and metrics. P&G also adjusted its supply chain and trade terms in order to serve those key accounts profitably.

P&G's Wal-Mart business has grown from less than \$400 million in the late 1980s to \$11 billion today; the retailer is P&G's biggest customer. The two companies monitor their progress using common scorecards, and they frequently collaborate on initiatives. For example, P&G and Wal-Mart were instrumental in the adoption of radio-frequency identification technology to

track inventory. Together, the companies also conducted research to understand "prime customers" and how to increase their shopping trips and the size of their purchases.

KAM succeeds best when this partnership philosophy is embedded throughout the company. Speaking at a conference of financial analysts, John Chambers, chairman and chief executive officer of Cisco, commented on the increasingly intertwining relationship of technology and business strategy. "So," he asserted, "when you deal with customers, you don't talk about one or the other. And you sure as heck don't talk about routers. You talk about how this collaboration changes the way you interface with your customers, changes your time to market, changes your speed and scale."

A company does not have to be a P&G or a Cisco to achieve similar results with KAM. (See Exhibit 2 for recent examples from the technology, financial services, and industrial goods sectors.) A client of BCG developed \$100 million in new sales through joint problem solving with its largest account. Another tripled sales at select large customers by creating processes that encouraged flexibility in meeting customer needs.

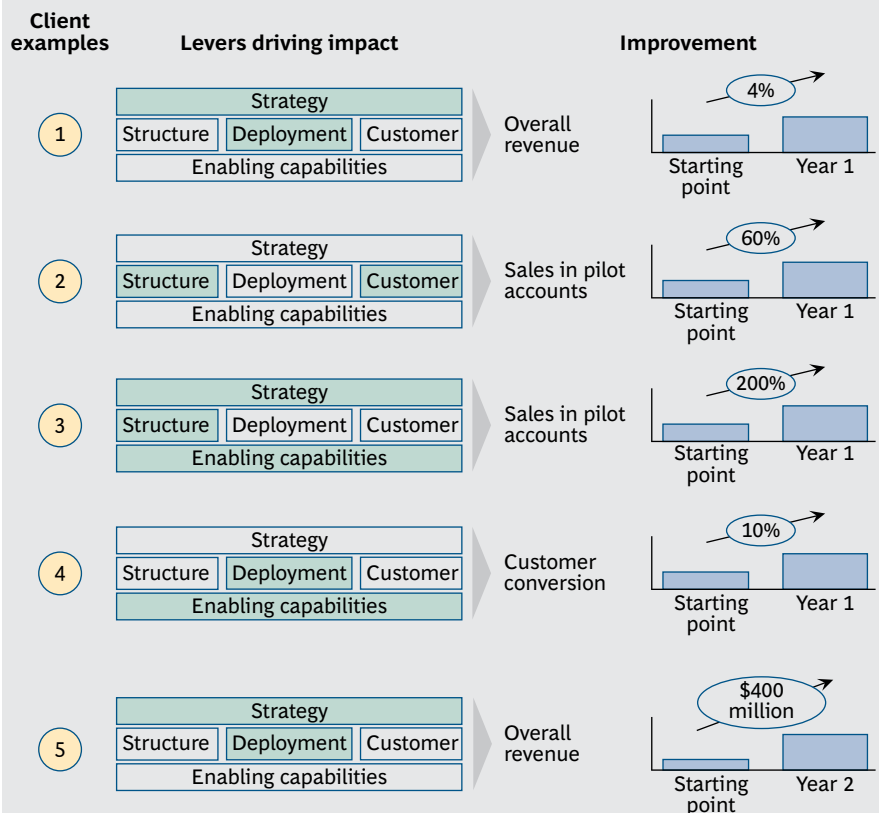
It is necessary, however, to dig deep to understand account relationships. Uneven sales coverage was a prime cause of dissatisfaction among customers of the global company mentioned earlier. Some accounts were underserved, while others were overserved. By redeploying its sales force, the company expects—in the first year alone—to as much as triple coverage of key accounts and increase revenues by 4 percent of total sales in the relevant markets.

Overcoming Barriers

Many companies have established KAM in name but not in practice. Their efforts generally fall short for several important reasons.

Emphasis on the Wrong Accounts. The primary focus should be on those customers with the greatest potential. Some of these may be small accounts today. Others may be relatively large but represent low share of wallet. Too often, key accounts are simply a collection of the largest customers within regions or business units. Some companies select key accounts on the basis of their historical revenue. It is essential to conduct a fact-based analysis of the potential of accounts. This is not easy, but it is critical to success.

EXHIBIT 2 | Real Improvements in Key Account Management Are Achievable



Source: BCG analysis.

Note: The five examples illustrate impact from KAM improvement efforts at BCG clients—companies in the technology, financial services, and industrial goods sectors.

Improper Resource Allocation. Key accounts need to have the right resources deployed against them. What is “right” for one customer, based on needs and potential, may be “wrong” for another. In addition, we often find major misalignments between actual and ideal resource deployment. Sales coverage based on geography or historical revenues can frequently distort the amount of time and attention a sales executive dedicates to individual key accounts.

Weak Processes. Strong processes, especially for account planning and coordination across business units, need to be in place. Planning horizons

are frequently too short for truly strategic initiatives. It can take 12 to 18 months to design and implement supplier-customer initiatives that cut across business units, functions, and geographic regions.

Organizational Limitations. Truly innovative customer solutions require multiunit cooperation and collaboration across the organization matrix. It is essential to create roles and accountabilities that enable KAM teams to work with the regional field-sales force, country and regional general managers, and supply chain and brand teams. For example, customers of a global technology client wanted to learn about best practices from other customers in different parts of the world. But because each geographic region was being run as an independent business, it was difficult to create a platform for sharing.

Improper Sequencing. Companies frequently fall into the “form over function” trap. They reorganize or restructure as a way to focus key accounts. Although these moves appear decisive, they can backfire. Initially, the best structure may not be apparent, or it may not be accompanied by enabling processes. The effort stumbles and the organization loses commitment. It is better to experiment until the concept is right before moving lines and boxes around.

Creating an Effective Program: Key Questions to Get Started

Management teams that want to enhance their KAM programs should ask themselves the following questions:

- *Which companies should be our key accounts?* If we want to “win with the winners,” who are they? What is our current share of wallet with these accounts? Do we have access to major decision makers and influencers at these accounts?
- *How much upside exists?* What will make a certain investment pay back? Why is it worth disrupting the status quo?
- *Do we really understand what our key accounts need?* Do we know the top priorities at key accounts and targets? How often does each of our key accounts want to be visited? What type of approach do our key accounts want?
- *How well are we meeting those needs?* Do we understand whether and how we deliver value, as well as how we can add value to the relationship?

How would our key accounts evaluate us against competitors?

- *Have we focused the right resources on our key accounts?* What level of support should we dedicate to them? What mix of generalists and specialists should we deploy? Do we understand the ideal profile for each role and do we have the right talent?
- *Do we have the right KAM and execution plans in place?* How should we deploy our sales and service resources? Are we developing for each key account prospective plans that will create value for both the account and us? Are we delivering on those plans?
- *Do we have a sustainable approach?* Do we have the right leadership for the KAM program? Do we reward the right long-term behaviors? Do we have the right mechanisms to recruit and retain the best key account managers? Do we have the right tools to track and measure the effectiveness of our KAM program?

The list of questions is long. Where to start? Have in-depth discussions with three to five large accounts for which sales performance is subpar. Identify the patterns of discontent and missed opportunities. Understand the financial details of serving those accounts—everything from price realization to growth and cost to serve. Define root causes and develop approaches to address them. Once a draft working model is defined, collaborate with customers to refine the approach. Secure the support of senior executives sooner rather than later by building a business case for investing in KAM.

Believing in Key Account Management

Key accounts—the closest and most committed customers—are those that have already expressed their faith in a company's products and services. If a supplier focuses on serving these accounts—not just through transactions but in true collaboration—both sides will benefit.

Take the first step. Meet with your key accounts and really listen to what they have to say. Then, act with a sense of urgency.

Mark Lubkeman
Vikas Taneja

FURTHER READING

“Essentials for Pharma Key Account Management: Partnering for Value,” BCG Article, August 2013

Sales Force Effectiveness: Getting Full Value from Sales Channels, BCG/EFMA Report, January 2012

Sales and Operations Planning: The Hidden Supply-Chain Engine, BCG Focus, August 2011

PRICING

THE LANGUAGE OF GROWTH ZEALOTS



PRICING IS THE LANGUAGE of business. It is the way that companies tell customers which products are worth the most and inform them when costs have risen. Companies with pricing fluency induce customers to pay a little more, or buy a little more. Consequently these companies can earn 1 to 3 percent more on revenues than their competitors—an advantage that drops straight to the bottom line.

Billions of dollars can be made by accurately anticipating how to target the right customers with the right offer at the right time and motivate them to respond. Such pricing fluency demands discipline. It also requires a data-driven approach that details what BCG calls the *customer pathway*—the path that customers take through the purchasing process, including factors, such as brand and choice of vendor, that affect the eventual buying decision. Few companies take this approach—even fewer launch programs that result in sustainable pricing fluency and advantage.

In business-to-business markets, where companies often offer thousands of products, finding the right price for each item is a particularly complex challenge. The evolved pricing capabilities seen today incorporate increasingly sophisticated discounting, mobile technologies, and advanced analytics, as the articles in this chapter reveal. The articles also explore:

- How best-practice companies actively manage new pricing ideas, focus on defensible competitive advantage, and sustain a long-term price premium of 2 to 3 percent over competitors
- How business-to-business companies can take three steps to set appropriate pricing and achieve winning results
- How companies that have only one chance to win a major contract can master “one-shot pricing”

PRICING

PRICING FLUENCY

A PROGRAM FOR PRICING EXCELLENCE

PRICING IS THE LANGUAGE of business. Through pricing, companies tell customers which products have the greatest value or when costs have gone up. Through pricing, companies can “ask” customers to change their behavior. As with all languages, fluency matters in pricing. Organizations fluent in pricing can convince their customers to pay a little more or to buy a little more. Consequently, they routinely earn 1 to 3 percent more on revenues than their competitors do—an advantage that falls straight to their bottom line.

Fluency in the language of pricing—as in any other language—requires discipline. Yet it is not managed as a discipline in most organizations. Many people touch pricing, but no one *owns* it. Pricing decisions, expertise, and information are fragmented across a company’s regions, business units, and functions.

Some organizations recognize this language barrier in pricing and try to address it. But too often they resort to narrowly focused initiatives—one-off pricing projects that provide only superficial results. To switch metaphors momentarily, that’s like relying on a crash diet for a quick—and short-lived—fix when a lifelong regimen of exercise and discipline is needed to achieve sustainable goals.

One of our clients learned this the hard way. Convinced that the sales force was giving away too much in price negotiations in order to capture volume, this company undertook a pricing project in which it analyzed accounts, identified opportunities to raise prices, and provided a new set of pricing guidelines. The resulting profit boost was quick and significant. Unfortunately, a short while later, the company found itself back in its original position and in need of another pricing remedy. The problem resurfaced because the leaders of the sales force continued to drive a culture that emphasized volume, rather than profitability. Without changing its incentives, processes, and people, the company could not achieve sustainable impact from pricing improvements.

Pricing is multifaceted and requires significant change management to hardwire new approaches. The effort will take most organizations more than 12 to 18 months and require a comprehensive program, rather than a single project. Yet changing pricing strategy can be done in stages that yield significant value along the way. Below is a brief description of the program we use to help our clients’ organizations become fluent in pricing and competitively advantaged in their price realization.

A Master Program for Pricing

A comprehensive pricing program for an entire organization focuses on two clear goals: improving the pricing model through better policies on how prices are set, and improving the pricing platform used to implement those policies throughout the organization.

Improving the Pricing Model. Companies have three sources of leverage for pricing improvement.

Tactical levers offer quick, no-risk fixes for pricing policies and anomalies. These solutions might include tightening the terms of payment, setting strict guardrails such as minimum profitability levels, increasing prices on products or product features that have low visibility, and monetizing giveaways (such as freight and service). Tactical levers can be decided upon quickly and rolled out for immediate impact.

Strategic changes in price levels involve moving prices on key items up or down—as much as 5 percent or more—by changing list prices or redefining the terms of trade promotion. This action is not to be taken lightly. To predict how customers or consumers will react, companies considering strategic price-level changes must make extensive use of analytic tools, such as conjoint analysis, price elasticity measures, profit parabolas, and in-depth customer interviews. These changes also require companies to use game theory and industry structure analysis to predict how competitors will respond. The investigation phase takes some time, but once a decision is made, implementation is fast—and so are results.

Fundamental reshaping of pricing schemes is a step change that requires a company to creatively rethink its overall pricing structure. It could lead to overhauling the product lineup or completely rebuilding the discount structure. It might also involve pricing-model innovations such as pricing for

performance, subscription pricing, or dynamic pricing, which is pegged to an external variable, such as time of day. (In some vending machines, for example, the price of the products varies from the morning to the afternoon). These types of changes require managers to carefully segment their customers and opportunities. Piloting and testing are crucial before pricing schemes are rolled out; therefore, implementation takes longer than for other, less-complex moves.

The best way to begin improving the pricing model is to identify each of the dimensions along which customer value and competitive intensity vary and make sure that a lever for pricing is aligned specifically to each dimension. For example, as the U.K. health care system has sought cost reductions, several drug manufacturers have implemented price-for-performance approaches tailored to that market, offering refunds if medications do not meet specified benchmarks for outcomes or cost effectiveness. Adopting a new approach to pricing is a long-term strategy that requires targeted customer segments or product lines and cross-functional teams to align the company's economics.

Improving the Pricing Platform. In this cyclical effort, the company reviews its progress and redesigns its processes when necessary. It encompasses the following dimensions.

Roles and Responsibilities of Stakeholders. Actions in pricing will depend on a company's market and how the company is structured to serve it. Companies with fragmented customer bases, for example, should enable their field representatives to make informed pricing decisions by supplying them with effective tools. By contrast, business-to-business companies that focus on a few megadeals might appoint a "pricing czar" to manage price negotiations. Most companies lack sufficient pricing resources and would benefit from creating a central pricing-support team to raise the visibility of pricing positions at the business-unit level and to ensure that all key functions have input into pricing policy and final decisions.

Market Intelligence. Too often, managers are forced to make decisions on the basis of incomplete or inaccurate information, anecdotes, or even gut instinct. Establishing a clear process for collecting, analyzing, and interpreting market data is critical. Heavy industry players, for example, have created significant value by improving their ability to forecast market cycles and adjusting their price levels accordingly.

Business Processes. Surprising as it may seem, very few companies have hardwired pricing into their key business processes. Without adequate lines of reporting and fine-tuned key performance indicators (KPIs), companies can't use information to drive better forecasting and decisions. Research conducted by BCG in 2009 indicates that although 70 percent of the global companies we surveyed expected customers to become more price sensitive over the coming year, 40 percent of these same companies projected an increase in price realization in their financial forecasts.¹

Human Resources. Learning any language requires training by experts, and pricing is no different. Companies should be open to recruiting new expertise in pricing from outside the organization. For example, to prepare for auctions organized by large OEMs, an electronics manufacturer invested in a training program that taught the sales force game theory and had them role-play auction bidding. The training generated pricing rewards that totaled ten times the program's cost.

Information Technology. We've found that the best-performing companies outinvest their competitors in tools and technology to support stakeholders in pricing. For example, an industrial goods company purchased a tool that helped it set the best prices for its products by determining how much each product reduced labor costs for individual customers. The tool resulted in an immediate hike in profits and a big boost to the sales team's morale.

Incentives and Compensation. General managers and sales teams are more likely to be given incentives for increasing volume and EBITDA than they are for meeting explicit price-realization targets. Yet promoting price realization can be a powerful lever. A North American company, for example, introduced price-realization targets and publicized individual sales reps' performance on a monthly basis. It didn't take long to see the company's overall price performance increase by more than one percentage point, thanks to increased awareness and healthy peer pressure.

Implementing the Master Plan for Long-Term Success. So far so good. The goals are clear, as are plans for tactics, levers, and tools. But how do you get a pricing program started and then keep it going? All worthwhile transformations take time and effort: it's a several-stage process—albeit with rewards along the way.

The program we use consists of five phases, which can be piloted in selected business units that have high potential for success and then rolled out in

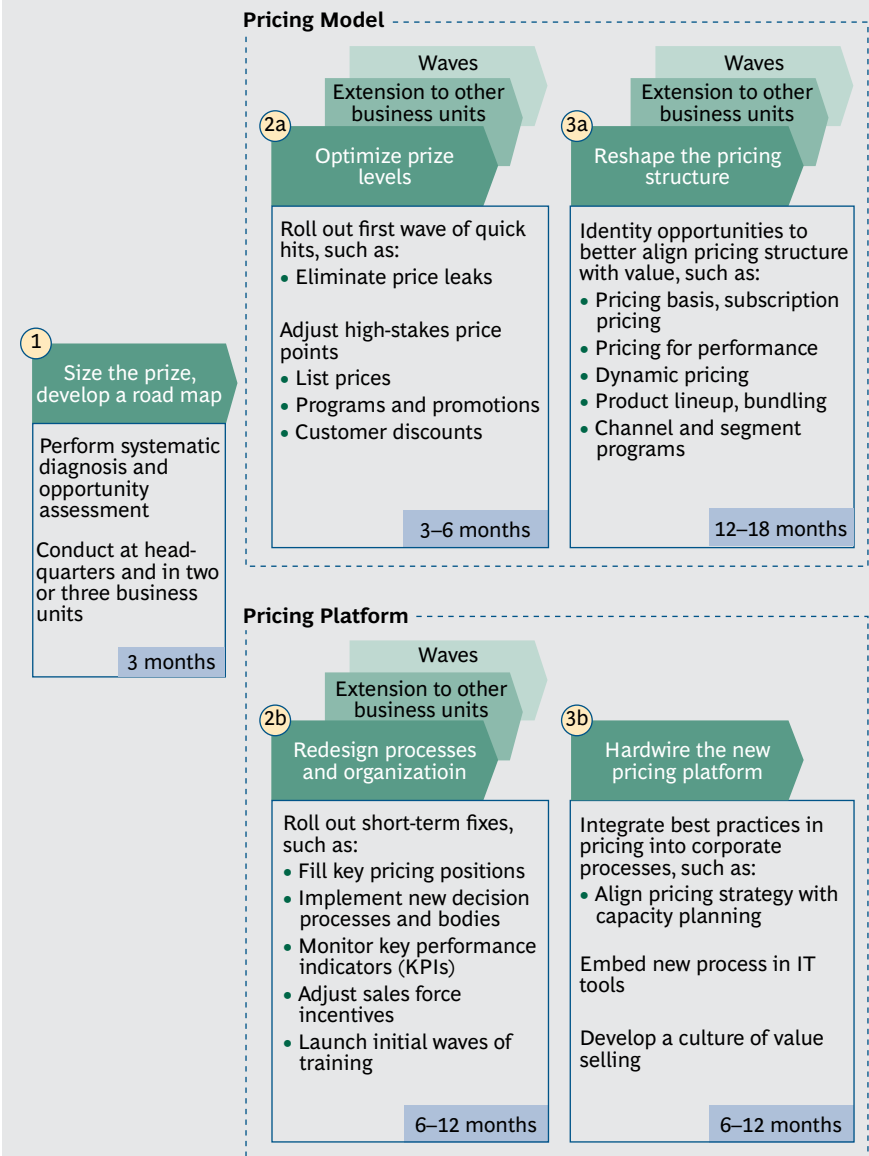
waves to other units. The program begins by sizing the prize and developing a road map for pricing improvements. The next two phases, conducted in parallel, involve optimizing price levels in the pricing model and redesigning processes for the pricing platform. In the final two phases, we return to the pricing model to simultaneously reshape the pricing structure (a new product lineup and new pricing schemes, for example) and hardwire the new pricing platform. The exhibit “A Good Pricing Program Should Be Developed in Phases” provides details for each phase and a rough estimate of timing.

Support for the Journey

Building a foundation for pricing fluency throughout the organization is a transformational effort that requires careful change management. Sales teams and business-unit management teams will need to revise the very “grammar” that guides their business practices—and it will take experience and hard work to get it right. The following principles have, in our experience, proven useful for creating the desired momentum, accelerating implementation, and keeping the effort running smoothly.

- *Invest heavily in early pilots to demonstrate success.* For instance, a country manager for an animal-health products company enrolled in the corporate pricing program and then took it upon himself to organize field tests with vets and conduct workshops to train sales reps. As a result, implementation of the pricing program went faster and more smoothly in his country than it had in any other market.
- *Plan for implementation from the first day and recognize that time is money.* To avoid missing important opportunities, the company should synchronize the new program’s road map with the schedule of price negotiations with customers. To make sure everyone is prepared, the company should appoint pricing responsibilities within the first week of starting. And to build a results-driven momentum, it should aim to announce quick hits within three months.
- *Mobilize a central expert team.* High-stakes pricing decisions often require pricing expertise beyond the capabilities of the business units. The risk of failure should therefore be mitigated through the use of sophisticated tools, such as elasticity assessment and game theory. The central team should provide this support, as well as help monitor progress, track impact, develop tools, and communicate with other functions.

A Good Pricing Program Should Be Developed in Phases



Source: BCG analysis.

- *Actively manage the human resources agenda.* Companies often move too slowly and tentatively to renegotiate sales force incentives and make key appointments effectively. Sometimes it's best to rip the bandage off quickly—communicate the difficult news and get on with the program.
- *Involve the legal department early in the process.* Too often, the legal department is brought in only at the end of a pricing program, to greenlight final proposals. To prioritize opportunities for legally complex pricing issues, it is best for companies to seek help from the legal experts early on.

Establishing an organization's fluency in pricing doesn't end even after an 18-month effort. Once well-run pricing processes are in place, best-practice companies adopt an agenda of continuous improvement. They actively manage the new pricing ideas in their "innovation pipelines," focus on defensible competitive advantage, and sustain a price premium of 2 to 3 percent over competitors. And because mastery of the grammar, vocabulary, and syntax of pricing is a capability difficult to imitate, achieving fluency in pricing can provide sustainable competitive advantage long into the future.

Sylvain Duranton
Jean-Manuel Izaret
Rich Hutchinson

NOTE

1. The BCG proprietary research was conducted in March 2009. The survey covered 439 executives from major companies based in seven developed countries: France, Germany, Italy, Japan, Spain, United States, and United Kingdom. Detailed findings were published in *Collateral Damage, Part 6: Underestimating the Crisis*, a BCG White Paper.

PRICING

LONG-TAIL PRICING IN BUSINESS-TO-BUSINESS MARKETS

EFFECTIVELY PRICING PRODUCTS CAN be a balancing act. For companies in business-to-business markets with sometimes thousands of products, it is a particularly complex challenge. As a result, these companies tend to actively manage the pricing of only key products on the basis of value delivered to customers and competitors' prices, reserving simple cost-plus approaches for the rest. They largely neglect active pricing for the vast majority of products in the "long tail."

When many managers think of the long tail, they often picture an online retailer that sells a vast selection of products to consumers thanks to its nearly limitless shelf space. However, long tails are common in many business-to-business companies. They frequently customize and repack-age offerings that can be sold to only an extremely small number of customers, producing thousands of SKUs. As a result, these companies often follow a one-size-fits-all pricing strategy—what we call the *20-80-50 formula*: 20 percent of an organization's products receive 80 percent of the attention from sales and management while accounting for only 50 percent of the company's profits. The approach is not surprising; it makes good sense to devote sizable resources to the highest-selling products.

Nevertheless, the 20-80-50 formula means 80 percent of the company's products are undermanaged, even though they account for the remaining 50 percent of profits. These products represent little revenue individually but significant margin upside collectively. If they were managed better, they could generate meaningful results.

Companies undermanage the long tail because they lack transparency into the true costs of complex products and because they find it too time consum-

ing or expensive to use sophisticated pricing tools such as choice-based modeling, value estimates, customer value-perception surveys, and competitor value maps. However, by not actively managing long-tail pricing, companies miss out on opportunities to capture the full value potential of their product portfolio.

BCG has developed an approach to long-tail pricing that addresses these challenges. It is a way for organizations to seek out and calculate the costs of complexity that matter, assess pricing on the basis of the value delivered and product differentiation, and ensure a robust implementation of a new pricing approach. Our view is that long-tail pricing does not have to be daunting.

A specialty chemicals company, for example, systematically addressed the long tail of more than 15,000 products, delivering a margin increase of 10 percentage points *and* a market share increase of 3 to 5 percentage points. Another industrial-goods company repriced 20,000 products and options, which translated into a margin increase of 5 percentage points and a rise in market share of 2 percentage points. Many other leading business-to-business organizations have experienced similar breakthrough results when they have taken the necessary steps to implement this approach.

In this article, we explain how to execute a strategy for effective long-tail pricing. This well-tested approach makes it possible to tailor the pricing of products to specific product and customer segments and achieve winning results.

Seek Out Cost Transparency

The first step in pricing long-tail products focuses on uncovering their true profitability.

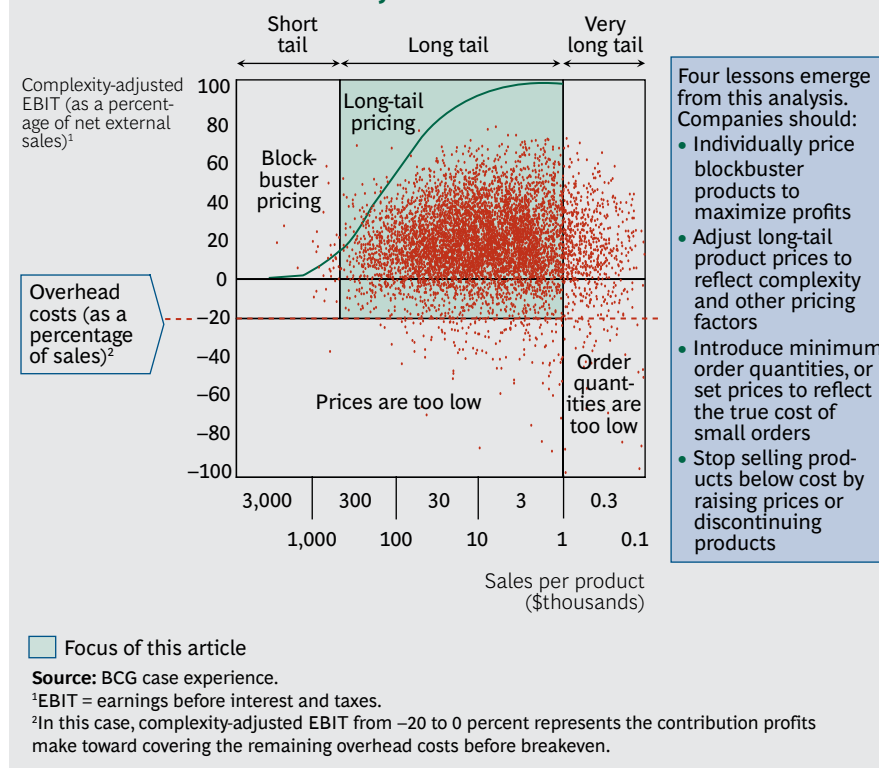
Individual customers with unique needs that require tailored solutions are frequently the source of the long product tail. To price these offerings properly, best practices dictate discovering all costs—the direct costs of producing and selling the products, as well as the complexity costs involved in customization. Such transparency is central to making the right pricing decisions.

For example, companies often treat the costs of redesigning products for individual customers as indirect or overhead costs. In doing so, companies

use a percentage of sales to allocate these complexity costs across all products rather than apply the costs, as they do direct costs, to individual products. Such standard cost-allocation models can overstate the profitability of long-tail products. Only when organizations take into account complexity costs can they determine if the prices of long-tail products contribute enough profit toward covering the remaining overhead costs. (See Exhibit 1.) If they don't, companies should adjust the pricing of their products and set price and order-quantity minimums. Alternatively, companies could decide that they are better off not selling the products at all.

Becoming aware of true product costs also helps managers gain a thorough understanding of the complexity in an organization's value chain. Consider the case of a small-parts manufacturer that receives a special order beyond the scope of the standard components that the company already produces. This custom adaptation requires a significant amount of extra work, includ-

EXHIBIT 1 | Best-Practice Pricing Uncovers Complexity Costs to Determine True Profitability



ing the engineering of the product, a dialogue with the customer to be sure the team is proceeding correctly, and the creation and stocking of the new article along with the appropriate documentation. Insight into these processes shows managers the avenues that can reduce overall complexity. It also helps them weigh the costs of increased complexity against, for example, the costs of downtime in the assembly line process.

Base Pricing on the Value Proposition

The second step in long-tail pricing is for companies to understand how they create value for customers. This can depend on multiple factors related to products, services, and competition. As a result, customers' willingness to pay a certain price can vary widely across segments. Leaders need to understand these variations and align their prices accordingly. To do so effectively requires a thorough and pragmatic analysis of pricing factors. (See Exhibit 2.)

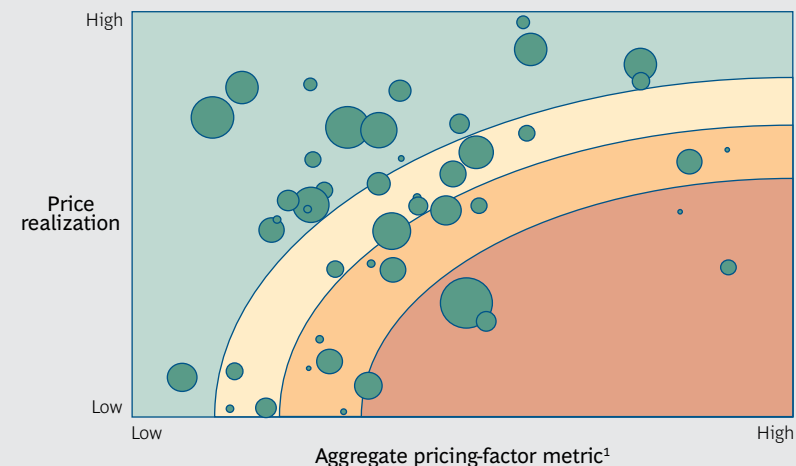
To price well across segments, executives should ask the following questions:

- How unique or differentiated are our product offerings in the marketplace?
- How important are our products to customers, and how price sensitive are these customers? What are the costs of switching to another company's product?
- How intense is the competition? How many alternatives does a customer have?
- How much pricing leeway do we have in each segment on the basis of our competitive positioning? Are we a market leader or follower?

By using a pragmatic scoring framework with readily available input from the marketing, sales, and R&D teams, leaders can answer these questions precisely and bring rigor to the analysis in short order. When organizations have a firm understanding of their value proposition and a strong sense of their pricing flexibility across segments, then they can begin to take action.

To make long-tail pricing a more realistic undertaking, we have designed a tool that calculates specific pricing increases for each customer-product

EXHIBIT 2 | The Opportunity for Price Improvement Can Vary by Product or Customer Segment



Pricing-adjustment action

- Well priced; no action needed
- Selective price adjustments needed
- Significant price adjustments needed
- Far below optimal price; adjust pricing on a case-by-case basis
- Customer segment (size = sales)²

Source: BCG analysis.

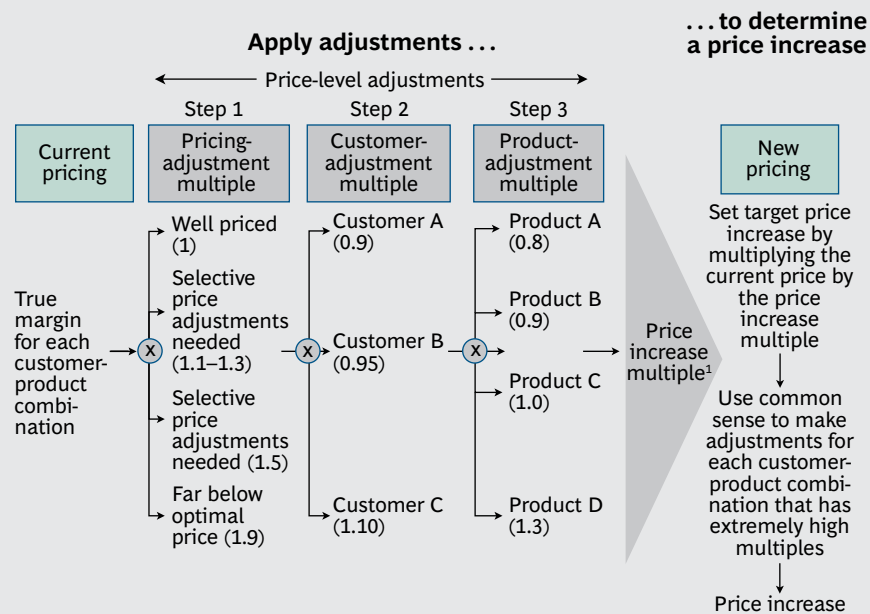
¹Pricing factors include product differentiation, switching costs, market fragmentation, and competitive positioning.

²Typical segmentation involves grouping customers by the product technology they use and by how they apply a certain technology in their production processes. This can show industry-specific patterns.

combination across a company's long tail. (See Exhibit 3.) By inputting the pricing-adjustment multiple for each customer-product combination, a company can use this algorithm to reprice thousands of products. This way, a painstaking manual adjustment of prices for each customer-product combination becomes unnecessary. In addition, once the tool has been set up, it can provide guidance for future long-tail pricing decisions. It enables the sales team to price correctly right from the start.

To adjust for outliers and overly steep increases, we suggest sales teams stay flexible and apply sound business judgment. Quadrupling the price of an insignificant item might minutely increase profits, but it would rarely be worth doing. In such cases, it is usually more fruitful to incorporate into

EXHIBIT 3 | A Pragmatic Tool Calculates Target Price Increases



Source: BCG analysis.

¹Multiplying step 1 by step 2 and then by step 3 results in a price increase multiple.

long-tail pricing surcharges or fees (for requesting 24-hour delivery or technical support, for example) and policies (for ordering minimum quantities, for instance). These can have a greater impact on the bottom line while still gaining customer acceptance. Unlike pricing and discounts, surcharges, fees, and policies are often not part of the sales negotiation process.

Addressing such aspects cannot be thought of as a one-time exercise, however. It is essential to put in place a robust and recurring process that evaluates them. Having such an ongoing exercise will point out which products are undermanaged and in the red, as well as how much room there is to raise prices.

Set Up a War Room to Ensure Robust Implementation

The third step in long-tail pricing is implementation—an essential element of success. The key to execution involves tracking and analyzing real-time data about pricing and customers' and competitors' actions so as to make adjustments and take counteractions quickly.

Effective companies establish a dedicated “war room” and conduct a structured program of meetings to ensure impact and mitigate risk. These meetings include the analysis and refinement of tracking and reporting tools. The goal is 100 percent follow-through on the proposed pricing changes. Establishing war room programs also puts in place a rapid-reaction mechanism for when customers push back on justified, albeit aggressive, price increases. Companies track the inevitable market reactions that come in, escalate decisions to the right level, and quickly resolve them.

Critically, the teams for pricing implementation, marketing, and sales all take part in this war room process. Pricing is inherently cross-functional in nature and requires the commitment and alignment of many internal stakeholders. Sales team members, in particular, benefit from inclusion, since they tend to be the most reluctant to push forward significant pricing changes. When salespeople must sign off on the changes, however, they begin to help spread the word. To make this level of buy-in happen, giving each sales team a price-change target can spur positive competition among the teams and improve the overall results.

Profit from the Long Tail

The current margin-constrained business environment compels leaders to start thinking beyond traditional pricing approaches that focus attention and resources on a small selection of products. With today's high costs of raw materials, volatility in currency markets, and increasing global competition, companies can no longer afford to ignore optimizing long-tail prices. Those that do risk leaving significant profits on the table.

In addition, successful long-tail-pricing management allows marketing and sales teams to increase their knowledge of pricing strategies for the entire product portfolio. And such best practices bring transparency to complexity-adjusted profitability, as well as solidify ongoing processes and tools.

To determine whether their company would benefit from a focus on long-tail pricing, leaders should ask the following three baseline questions:

- Do we have transparency into sales per customer and sales per product for items in the long tail, as well as true cost and profit data, including the costs of complexity?

- Are our low-volume products adequately priced, given the value they deliver and the complexity they create?
- Do we use a precise methodology to differentiate pricing approaches across segments?

Executives who answer no to any of the questions above are likely to have undermanaged long tails. Careful attention to long-tail pricing could lead to quick improvements in margin and market share.

Business-to-business companies need to step back and look at everything they offer—not only the obvious 20 percent of products that generate the majority of their sales and half of their profits today. They will find that tackling the long tail generates swift and significant impact without overburdening the organization. In fact, long-tail pricing delivers the medium- to long-term benefits of better portfolio management and freed-up resources. Ultimately, a focus on the long tail will help companies deliver lasting results.

Just Schürmann
Jean-Manuel Izaret
Felix Schuler
Andreas Koppitz

PRICING

ONE-SHOT PRICING

WHEN YOU HAVE ONLY one shot at winning, you really need to make it count. All companies selling work through major contracts understand this urgency. Dealing with infrequent (and typically large) bids for each piece of business, these companies must master what we call “one-shot pricing.”

Many business-to-business companies—in sectors as varied as construction, professional services, and industrial goods—use one-shot pricing. Because no one-shot-pricing scenario is exactly the same as another, companies may wrongly assume that they can simply take an ad hoc approach. In reality, a sharply focused strategic lens and disciplined execution are just as important to one-shot pricing as they are to every other type of pricing, if not more so. In most cases, at least 1 or 2 percentage points of operating income are at stake.

A Different Animal

In traditional transaction-pricing situations, companies sell thousands of items per day, collecting robust data, estimating price elasticity, and tweaking price levels and promotions accordingly each week. It is a complex process but quite systematic.

By contrast, in one-shot pricing, companies must compete separately for each new piece of business through a bid or negotiation process. One-shot pricing means that prices generally have the following characteristics:

- They are tailored to each selling situation, with little or no meaningful reliance on published list prices
- Each negotiated price is good at only one point in time and for specific quantities
- Because pricing is defined before costs are fully known, such agreements are frequently plagued by unanticipated extras and cost overruns

- Prices are dependent on both opportunity costs (whether a contract is won or lost) and true costs

Not Mission Impossible

Because so few companies excel at systematic one-shot pricing, managers may understandably conclude that there is no way to shine. Most trust their sales representatives' skills, negotiations, and luck—win some, lose some. But there is a better way.

Companies must view one-shot pricing in two ways: through a strategic and an execution lens. The strategic lens helps companies answer challenging questions about everything from customer motivations to competitive positioning. The execution lens imposes discipline around an activity that has historically lacked rigor.

The Strategic Checklist

To achieve a comprehensive strategic approach to each new pricing opportunity, we recommend focusing on *customer*, *competitors*, *competitiveness*, *costs*, and *capacity* through what we call the Five-C framework.

- *Customer*. Why is the customer buying? To save money or to deploy your unique capabilities? What are the customer's key purchasing criteria or sources of value creation from this purchase?
- *Competitors*. Against which other companies are you bidding?
- *Competitiveness*. What is your relative cost position? What is your relative value proposition versus that of your competitors?
- *Costs*. What are the true and opportunity costs associated with the bid?
- *Capacity*. What kind of impact will your bid have on the capacity dynamics of your own company and the overall industry?

The following company examples illustrate how the Five-C framework can contribute to better results in one-shot pricing.

Ship Building. In ship building, understanding a customer and identifying the best total package of key components of a ship's economics—revenue-

generation capability, operating costs, lifetime maintenance costs, and initial investment—determine the shipyard's ability to price a particular ship. Because a superior ship concept can generate profits for the customer, it is critically important to quantify the concept's value during negotiations.

Many customers also want to incorporate changes during construction, and this flexibility should be built into the pricing. At the same time, ship builders must keep their own economics in mind: selling the first ship in a series is all about getting production volume, and because the rest of the ships in the series may be the drivers of profit, the pricing strategy will be different for each.

Salt and Snow-Removal Chemicals. Competitors and the dynamics of competitiveness add another layer of complexity. The market for chemicals, salt, and sand to clear snow and ice from streets is a great example of competitive one-shot pricing. Bids on exclusive one-year contracts to supply each locality are tendered in the spring for delivery in late fall.

This timing is challenging for suppliers, who must promise a winter's supply of product before they know what contracts they have won and how much consumption will occur. Working with only manual and delayed data capture, most companies develop bids on the basis of factors such as past experience and incumbency.

One producer, however, has boosted profits by understanding the industry's economics. This producer estimated its own delivered cost as well as that of its competitors, overlaid the current awarded volumes, factored in capacity levels, and analyzed where it had—or lacked—strong competitive advantage. By compiling historical bid data, the company was also able to understand price-volume relationships and market attractiveness. A synthesis of all this information resulted in a defined bidding strategy for each market. (See Exhibit 1.)

Infant Nutrition. Large-contract bids also require an understanding of both costs and capacity. Nutrition companies, for example, compete to supply infant formula to state government programs serving needy families. These three-year exclusive state contracts are a loss leader that provide shelf space and generate subsequent incremental purchases for the winning bidder. Bidding typically occurs at a price level below production costs, so each company must understand the true value of the incremental purchases in or-

EXHIBIT 1 | A Strategic Lens Can Guide One-Shot Pricing Decisions

Illustrative bidding strategy

Contract profitability	More profitable	<p>1</p> <p>In profitable areas where advantage is weak, pursue defensive steps such as long-term contracts</p>	<p>2</p> <p>Increase share through more competitive bidding</p>
	Less profitable	<p>3</p> <p>If it is imperative to serve more attractive areas, reduce share of cost to serve less profitable contracts</p>	<p>4</p> <p>Increase share through more competitive bidding</p> <p>Reduce the cost to serve</p>
		Weaker	Stronger
		Comparative cost advantage	

Source: BCG analysis.

der to calculate an appropriate price. At the same time, these companies must monitor industry capacity. A higher bid might make sense, for example, when a competitor is reaching the limits at its factories or when more than one state contract is up for bid at the same time.

Execution with Rigor

In purely bid-based pricing, every deal is unique. Yet it is actually both possible and critically important to hard-wire the process, tools, and structure needed for execution.

Consider the experience of a national quick printer that creates pamphlets and materials for small-business customers in hundreds of stores. When each store manager was independently responsible for bidding, identical jobs generated a wide range of winning bid prices. Seeking a more rational approach, the company began tracking win-loss data and conducting cus-

tomers research to understand the competition and what customers value most—for example, quality, price, or convenience. The company also established a central team to help impose better discipline and accelerate pricing-skills development.

The experience of a large, decentralized engineering company is also illustrative. Starting by carefully mapping the selling process, the company found many opportunities for improvement. Gaps in cost information created inaccurate starting prices. The lack of systematic rules led to a slippery slope of discounts during a long negotiation process. Without metrics to create transparency in pricing behavior, management had trouble improving pricing. The company addressed all these issues by defining specific best practices at every stage. To ensure that the process would be followed, the company also developed a centrally administered project-pricing tool to enforce desired pricing behaviors. (See Exhibit 2.)

What It Takes

One-shot pricing transactions do not occur frequently. Like a seasonal athlete without the enforcing mechanism of year-round practices to stay in shape, a company may let its pricing muscles atrophy with disuse. Before negotiating one of these deals, it makes sense to review a checklist such as the Five-C framework.

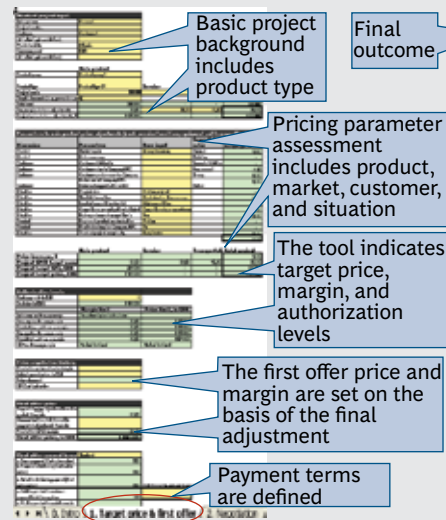
Especially at decentralized organizations, companies may want to create a central pricing office to manage the change process, a rigorous approach to implementation, and the development of detailed tools.

All companies should take clear actions when one-shot pricing opportunities arise: Clearly articulate why each customer is buying and what impact that should have on your bid response. Know your competition and, therefore, how aggressive you should be. Accurately quantify your position relative to the competition. Factor in both your true and opportunity costs. Understand how the bid will impact your capacity as well as overall industry capacity. And, finally, use clear metrics and well-defined targets to measure the effectiveness of your bidding strategies.

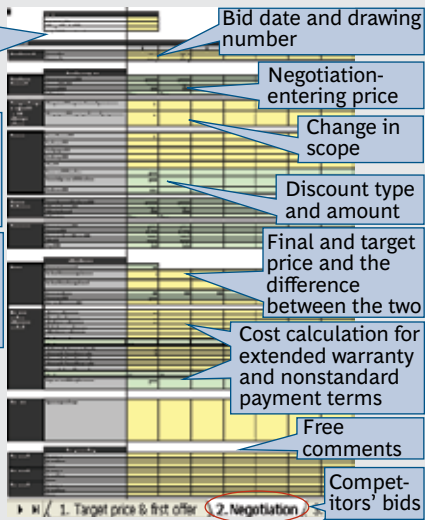
It is time to anticipate change rather than react belatedly. Rethink your commercial strategy and, accordingly, the guiding principles of your pricing strategy. In which products, locations, and customer segments do you want

EXHIBIT 2 | Tools Can Help Hard-Wire Desired Pricing Behavior Across the Organization

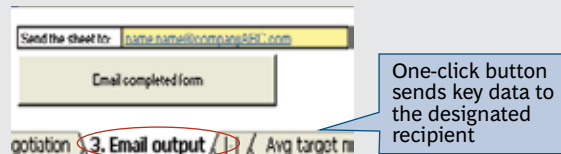
Step 1. Define first offer and target prices



Step 2. Track each negotiation step



Step 3. Collect key data



Source: BCG analysis.

FURTHER READING

“Regaining Pricing Control in a Multichannel World: How Manufacturers Can Rewrite the Rules of the Game,” BCG Article, June 2013

“Taking the Fear Out of Retail Pricing: A Holistic Approach for Retailers,” BCG Article, December 2012

Paying for Performance: Trade Spending for Profitable Growth, BCG Focus, September 2012

to grow, protect share, or manage for profitability? Companies that take these steps will have what it takes to win.

Just Schürmann
Pekka Vanne
David Rickard

This article was excerpted from One-Shot Pricing.

CONSUMER AND CUSTOMER INSIGHT

HEARING THE CALL TO ACTION



AT THE VERY HEART of commercial strategy and transformation is customer insight—and by that we mean a deep understanding of today's radically changing customer behaviors, attitudes, and needs.

How does she browse and where does she shop? When does he decide to trust a new brand? Why does the corporate buyer choose a supplier? What are the decision points in a purchase?

Too often, even the most sophisticated companies find themselves asking questions that reveal crucial gaps of insight into their own customers' motivation and behavior. Intuitively, many companies know they lack the data and capabilities to build truly deep and actionable customer intelligence—and to manipulate that information to strengthen the company's brand and economics.

Certainly this is a competitive weakness—but it can be addressed, as the articles in this chapter reveal.

Real insights depend on a knowledge of the customer that is broad, deep, and segmented—and also shared. Insights do little good unless they are distributed throughout the enterprise to inform every activity—from product development and customer service to marketing, branding, and sales. That is increasingly possible due to the rapid and transformative evolution of data, analytics, and tools capable of segmenting, analyzing, and reaching customers.

Big data and advanced research capabilities could be called the go-to-market arsenal of customer insight. They bolster the science that enables companies to merge data sets from multiple sources and extended time periods—permitting companies to understand purchase drivers, recognize patterns, and predict behaviors.

THE CONSUMER'S VOICE

CAN YOUR COMPANY HEAR IT?

LOSING TOUCH WITH THE CUSTOMER can drive companies straight out of business. And yet surprisingly few companies turn their market-research efforts into a source of competitive advantage. Although chief executives acknowledge the importance of consumer centricity, there remains a wide gap between aspiration and reality in most large, consumer-facing companies. Despite efforts to amplify the voice of the consumer, the only thing heard in many boardrooms is a faint echo.

To address this shortcoming, BCG's Center for Consumer and Customer Insight launched a major benchmarking study to determine how consumer insight can be made more effective.

BCG's study was designed to analyze the root causes of gaps in consumer insight and to identify common factors in best-practice consumer-insight organizations. The participants consisted of more than 800 executives at 40 leading companies in consumer-facing businesses, split almost evenly between the consumer insight function and line management. We also conducted almost 200 in-depth interviews.

Our findings indicate that unlocking the full potential of this critical function requires changes in behavior and expectations within the insight function and on the part of CEOs and senior executives. Companies must improve how line management engages with the insight organization, while concurrently upgrading that organization's performance.

How Much Does Consumer Insight Matter, Especially Now?

Many struggling companies have lost "true north"—the sense of what drove their success when times were good. They have no compass to guide them when making difficult choices about where to cut costs and where to increase investment and innovation. Companies are being whipsawed by frequent changes in consumer behavior. Only a few years ago, bottled water was a sign of healthy living, but today it can be a symbol of environmental

carelessness and waste. Rapidly evolving technology has left marketers scrambling to catch up with consumers shifting to new social-media sites and mobile devices.

We have seen many companies frozen in place—or worse, reacting in panic, making broad pricing and promotional moves in the short term that damage their pricing power over the longer term. By contrast, a global packaged-goods maker, facing pressure from retailers to lower prices, exploits superior shopper insight: its managers use proprietary data to optimize pricing decisions across brands, SKUs, and regions. They know which items have high loyalty, ready substitutes, or tough competition—allowing them to tailor the depth and frequency of price promotions with a high level of precision to optimize both margins and sales.

From Cost Center to Source of Competitive Advantage

In our survey, only 35 percent of executives described themselves as "best in class" and only 41 percent described their consumer-insight capabilities as "a source of competitive advantage." Only one-third of respondents considered their company to be above average in turning consumer insight into innovative products or services.

Our study identified four main stages of consumer insight. In stage 1, for example, traditional market researchers have a limited role, mainly responding to specific requests for data or market analysis. In stages 3 and 4, by contrast, the company has evolved into a strategic insight organization.

Stage 1: Traditional Market Research Function. At companies still in this stage, consumer insight teams have little access to senior executives. Only the marketing function tends to engage actively with consumer insight staff, while other functions—such as product development or sales—do not. The mix of market research is highly skewed toward tactical work, such as focus-group testing of proposed advertising copy.

Stage 2: Business Contribution Team. In stage 2 companies, senior executives expect a stronger consumer focus, and the consumer insight team has greater access to the business units and senior leaders. The mix of research studies is therefore likely to be more strategic—for example, finding "white space" for product line extensions. The research output is not only data but also a set of business recommendations. However, the focus is still on producing individual research studies.

Stage 3: Strategic Insight Organization. Senior executives in stage 3 companies also believe that consumer insight should guide major decisions. At these companies, however, engagement in consumer insight crosses functional lines so that R&D, supply chain, distribution, real estate, and technology decisions reflect the end consumer. Stage 3 organizations develop synthesized, business-unit-specific recommendations that leverage multiple sources of data, including—but not limited to—consumer insight. Consumer insight staff are hired, trained, and rotated into a high-performing team that includes a diversity of career backgrounds. Their managers value critical thinking and business judgment as much as they do technical research skills.

Stage 4: Strategic Foresight Organization. Still only an aspiration for most companies, the consumer insight function at this stage has a corporatewide mandate that extends across business units and influences cross-firm decisions, such as acquisitions, prioritization of brands and markets, and resource allocation.

Almost 90 percent of the benchmarked companies in our study are still at stages 1 or 2 and follow a more traditional approach to market research. However, a few leading-edge companies have reached more advanced levels, consistently operating in stage 3 and occasionally rising to stage 4.

Companies that reach or exceed stage 3 are better equipped to develop breakthrough communication strategies grounded in true consumer and shopper needs and to leverage consumer data to achieve better pricing and promotion capability. Consumer goods companies that have achieved stages 3 and 4, for example, leverage their superior shopper insight to win “category captain” status without overinvesting in promotional funding with retailers.

In addition, companies at stages 3 and 4 benefit from better innovation. When innovation is grounded in true insight into the unmet needs of consumers, it has a much higher impact—and new-product introductions will have lower failure rates.

Two Sides to Every Story

Our research revealed that insight staff and line managers share a high level of frustration about their companies’ current efforts. The two groups, however, have different views about what needs to be fixed. Business leaders tended to blame the gap on the insight team’s performance. The consumer insight staff blame the business unit leadership’s lack of engagement in the research process.

The gap in perception between business and insight personnel illustrates two important drivers of success: the engagement model between line management and the insight function, and the performance of the insight function. Ultimately, the insight team will need people who can and will reinvent the role of consumer insight—and thus raise the level of strategic input and output. Rather than simply valuing technical skills, managers must broaden their recruiting criteria and seek a greater diversity of backgrounds to shape the ability to translate data into strategic implications. They must also raise expectations about what constitutes success: integrated work that reflects a holistic understanding of the business and has meaningful financial impact.

At the same time, line managers need to have the right vision regarding the insight team’s role and must develop a partnership approach. They must become more receptive to the insight team’s findings. And they must include research data more broadly as an input to strategy, innovation, acquisitions, and other high-level decisions.

Improving the Engagement Model

The engagement model reflects the strength and quality of the functional connections between the line managers and the insight employees. Our research debunked the myth that the organization structure drives the engagement model. With a few exceptions, many different organization structures can work effectively provided that they incorporate certain principles.

Most companies follow a matrix model in which an individual in an insight function has dual reporting lines to both a line manager on the business side and a functional insight leader. Many successful companies have the dominant (or “solid”) reporting line to insight leaders, and vice versa. Likewise, the insight function can be equally effective reporting to marketing, business development, strategy, or a business unit.

The one model that we found ineffective had insight staff reporting directly to the business unit while reporting to a central insight leader on an informal, dotted-line basis. In this model, junior insight personnel lack appropriate coaching and development support on insight skills. They also have no objective functional hierarchy for resolving any roadblocks that might arise in translating consumer insight into improved business performance.

At most companies in stages 3 and 4, the leader of the insight function holds an executive-level position. This enables the insight team both to engage holistically in the business and to represent the voice of the consumer in critical strategy conversations about the future direction of the company.

What can managers do to improve functional connections and engagement between line managers and the insight team? Our benchmarking analysis suggests four key tenets.

Ensure an appropriate interface with senior executives. The insight team must have access to senior management and should be encouraged to contribute to cross-brand strategic decisions.

Move beyond a narrow marketing scope. Many companies do not leverage consumer insight for all its potential applications. Less than 40 percent of respondents said that it was used for decisions on pricing, promotional activities, or distribution channels.

Prioritize strategic work and exercise the ability to say “no” to some projects. The vast majority of market research budgets are devoted to tactical studies with a backward-looking, short-term focus (such as syndicated sales tracking or consumer panel testing on small changes to advertising copy). Only 20 to 35 percent of research budgets are devoted to strategic work such as brand positioning, deep-dive qualitative research in the field, or customer segmentation.

Strongly embed the insight team in the business unit. Several of the companies in our study maintain close links between the business units and the insight function. Insight teams in stages 3 and 4 are ongoing partners with each business unit, regularly participating in meetings and discussions across a wide range of topics rather than simply interacting on a study-by-study basis to establish objectives and scope and then present findings when completed.

Improving Your Insight Team’s Performance

Our research also debunked the myth that what drives insight performance is the amount of insight spending as a percentage of company or brand sales. Rather than a bigger research-study budget, a better place to invest is in robust insight-team staffing. Companies in stages 3 and 4 spend more on people who can prioritize, direct, analyze, synthesize, and translate research into business impact and implications, rather than spending more money

just to get more reams of data. Only 38 percent of business executives currently agree that their company does a good job recruiting talented insight personnel.

Companies with high-performing insight functions also make it easier for individuals to transfer between the insight function and line management roles. This fluidity of movement not only enhances company effectiveness across functions but also sends a strong signal to potential recruits that there is not a “glass ceiling” for the insight team.

Training is another area that separates the high-performing teams from the pack. Less than half of consumer insight staff in our survey had received any training in the past six months to improve their skills, and almost none were given access to a rotational program that might help broaden their business understanding.

Getting Started on a Transformation Journey

On the basis of conversations with companies that are already on the transformation journey and with others that are embarking on a change program, our study identified six success factors.

Establish co-ownership with business lines. An insight transformation effort driven and focused solely within the insight team is doomed to partial success at best.

Expect that success takes time. The transformation effort is a distance event, not a sprint. If it were just a question of spending more money, results might be quicker.

Commit to make talent changes. The best-performing companies in our study were willing to reevaluate their entire talent process: how they hire, the skills they look for, how they train and develop their team, whom they promote, and whom they retain.

Generate CEO-level buy-in and sponsorship. As always, the person with the greatest power to overcome traditional silos sits right at the top.

Make changes visible. Small moves can have a disproportionate impact if they are carefully chosen. For example, shifting one executive from the insight team to a business unit, or vice versa, symbolizes equal standing across functions.

Learn as you go. What works for others may not work for your business—so take one step at a time and test as you go. Trying out new approaches in pilot programs can build success stories that go beyond experience to create buy-in and conversion.

Leaders who act decisively to close the consumer-insight gap will find themselves many steps ahead of their competition—close enough to hear and even to anticipate the voice of the consumer.

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This article was excerpted from The Consumer's Voice: Can Your Company Hear It?

CONSUMER AND CUSTOMER INSIGHT

CONSUMER SEGMENTATION

A CALL TO ACTION

SEGMENTATION—ONCE HAILED as the Holy Grail for identifying growth opportunities in consumer businesses—has come under a cloud in recent years. Segmentation remains a useful tool. If companies weren't able to de-average their consumer base, their marketing activities would wander off in the general direction of a theoretical "average" consumer. But too often, as a result of poor execution, segmentation efforts fail to deliver the value that companies expect.

There is a better way. BCG's approach to consumer segmentation is designed to yield specific business actions that will result in a measurable improvement in financial performance. Using this approach, we've helped companies discover the most promising levers to drive profitable growth, and we've seen them unlock as much as \$1 billion in value born of a single segmentation effort.

The Art and Science of Segmentation

Segmentation should be based on a combination of qualitative and quantitative data. The qualitative research uncovers the attitudes behind consumer behavior in a specific category. It allows a company to experience its category from a consumer's perspective and learn how consumers think about, shop for, and use its products. This qualitative research needs to be supplemented with a rich set of quantitative data on the behavioral and attitudinal factors identified in the qualitative phase.

What many executives are surprised to learn, however, is that even quantitative surveys do not yield definitive segmentations. Each segmentation requires myriad judgment calls about survey design and data analysis. Any given data set can produce numerous statistically significant segmentations.

Identifying the segmentation that will create the most value isn't easy, especially when many key decisions are made by an outside agency that has been contracted by the market research department and is far removed from the C-suite. The segmentation may not address core strategic questions and may fail to drive business improvement.

Segmentation, then, is both an art and a science. Asking the right questions and drawing the correct inferences from the responses is art. So is discovering the optimum solution by sifting through multiple segmentations (applying judgments based on both the qualitative research and an understanding of the company's strategic landscape). The measurement and validation of quantitative research to ensure maximum economic growth is science.

Below, we detail the three critical factors—category involvement, segment profitability, and opportunities for action—on which we believe segmentation must focus. All of them should be explored in the qualitative research, addressed explicitly in the quantitative research, and used as the main drivers of results in the analysis phase.

Focusing on Category Involvement

Category involvement—a multidimensional measure—assesses the degree to which consumers consider a product category important given their needs, emotional makeup, values, and interests. It takes into account the time they spend thinking about products in a category, reading about them, learning new things about them, talking about them, and shopping for them. It also considers frequency or depth of use, knowledge or expertise, and the amount of money spent.

In our research on trading-up and trading-down trends over the past several years, we have documented differences in individual consumers' shopping behavior from one category to the next. For instance, some consumers may pay top price for chocolate for themselves but feel that private-label dog food is good enough for their pet. In fact, most consumers can identify at least a couple of categories for which they have a special affinity ("I'm a wine connoisseur" or "I need a special closet just for my shoes"). Such shoppers may make up as little as 20 percent of the consumers in a category but may be responsible for as much as 70 to 80 percent of its sales—through purchases, recommendations they make, and gifts they receive.

Attitudes and the behaviors vary by category and individual. Two people of the same age, race, income, and hometown will often make different choices about when and where to splurge or economize in a given category. Therefore, sociodemographic segmentations are mostly inadequate at predicting consumer spending. They may make it easy to identify and track consumers, but they don't necessarily lead to effective actions differentiated by segment.

Lifestyle segmentations aren't much better, because they presume that people who have one thing in common have most things in common. A lifestyle segmentation, for example, might tell an apparel company how many of its customers consider themselves trusting or adventurous. But it would be more useful for the apparel company to know the characteristics and number of consumers who are very emotionally involved in apparel and, within that set, which consumers prefer a classic as opposed to a modern look.

There are times when an occasion-based segmentation may prove more effective than one that looks at consumers alone. Take shoes, for instance. There are different kinds of shoes for just about every sport, and dress shoes for many different occasions. An occasion-based segmentation uncovers new opportunities for the company, which may be offering products in only a subset of consumer-defined occasions.

These observations have two implications for the segmentation process. First, segmentation surveys should focus on category-specific attitudes and avoid general questions irrelevant to the category, such as whether people consider themselves shy or outgoing. Second, category-specific attitudes rather than sociodemographic variables should drive the segmentation algorithms.

Once the segments are defined, profiles of consumer behavior should be developed in each segment. Thus, the explanatory power of the segmentation comes from the link established between category-specific attitudes and the particular kinds of behavior they produce. This link is critical for ensuring that actions undertaken to change perceptions will ultimately drive changes in consumer behavior and improve the business.

Analyzing Segment Profitability

We differentiate consumers by their profitability in addition to their involvement in a category. That helps to prioritize investments. For instance, two

consumer segments may both be highly emotionally involved in a category and make many purchases, but one may be very sensitive to price and always buy merchandise on sale, whereas the other may value time over savings and typically pay full price. Surveys should capture such differences by looking at the proportion of consumer spending by channel, the frequency of splurging or trading up in the category, and the proportion of buying at full price.

Too often, consumer segmentations that divide the market into groups with catchy names don't provide insight into the economics of each segment and its contribution to profits in a particular category. It is vital to understand consumers' total spending in the category as well as their propensity to pay premium prices. That allows the company to quantify profit pools by segment and prioritize them accordingly. Even in an uncertain economy, almost every category has a segment of highly involved and highly profitable consumers who are unwilling to economize in that category.

Identifying Opportunities for Action

Beyond finding potential profit pools, our approach to effective segmentation also requires a company to determine up front which business actions it intends to take as a result of the effort. There are several possible levers to improve value creation:

- Pricing and promotional strategies
- Consumer marketing messages and channels
- New products and subbrands (different features and attributes)
- Customer retention strategies
- New retail concepts

Most researchers limit their quantitative surveys to 20 or 30 minutes. But this isn't enough time to explore the potential results of all the actions a company might contemplate taking to improve performance. We begin with clear hypotheses about which actions will achieve the company's objectives and then make sure that those actions are addressed in the research design and analysis.

The resulting insights identify opportunities to make value-creating levers more effective. For instance, in our work with a hotel chain, we chose direct marketing to help optimize the business, focusing on understanding which customers were more or less likely to respond to promotional offers. As a result, the chain was able to customize its promotions by type of customer and occasion. (Customers traveling on business, for example, were offered a free weekend rather than the third day free.) Another segmentation aimed at increasing awareness of a brand, so we analyzed consumers' exposure to different media, as well as the demographics of each segment, for the purposes of future media buying.

Enlisting the Organization

As good as a segmentation effort might be, its value will be wasted unless the whole organization embraces it. Too often, critical insights aren't realized, because top management is not directly engaged in helping to shape the effort. At other times, functions that haven't been directly involved don't fully understand the findings and won't act on them. For research to have the greatest impact, business executives must be directly involved from the beginning and take ownership of it.

Persuading the whole organization to support the segmentation should be an integral part of the effort, not an afterthought. For example, we found seven potentially valuable consumer segments for an apparel retailer. After identifying the most attractive one (consumers who were highly involved in apparel, most aligned with our client's fashion positioning, and least sensitive to price), we developed a plan to respond to this segment's unmet needs. Those insights became the basis for an offsite strategic-planning meeting, a brand-repositioning effort, a new ad campaign, and a redesigned product-development process. We spent as much time communicating the results of the segmentation study—through multiple presentations, Q&A sessions, and one-on-one meetings—as we initially spent developing the segmentation.

Segmentations that are designed for action and based on category involvement and profitability can create tremendous value over the long term. They can help a company define a new space for growth, reverse a sales decline, react to a competitive threat, and—perhaps most important—determine where and how to compete. They can also align marketing and sales across the organization—for example, to identify a growth area that needs its own business unit, including a marketing and sales team. Or they can suggest a reorganization of the marketing department to capitalize on different

opportunities by segment, pulling all the company's value-creation levers together.

At the very minimum, segmentation should answer the following questions in order to be successful:

- Which consumer segments represent the largest profit pools in our category?
- What is our share of wallet across segments today?
- How should we prioritize the various growth opportunities within and across segments?
- What messages and offerings will command the attention of these consumers?
- How can we position our brands and subbrands for growth against competitors and one another?
- What changes in product offerings, service, and brand perception should we make in order to increase share among targeted segments? How are these changes best achieved?

The ultimate results of an action-based segmentation are a stronger competitive position, a clear view of the markets that are ripe for successful competition, and a plan for achieving the potential advantage.

Jean-Manuel Izaret
Mary Egan

This article was excerpted from Consumer Segmentation: A Call to Action.

FURTHER READING

The Resilient Consumer: Where to Find Growth amid the Gloom in Developed Economies, BCG Focus, 2013

The Millennial Consumer: Debunking Stereotypes, BCG Focus, April 2012

"Millennial Passions: Food, Fashion, and Friends," BCG Article, November 2012

GLOBALIZATION

TAPPING THE EMERGING-MARKET ENGINES OF GROWTH



IT IS YESTERDAY'S NEWS that rapidly developing economies have become engines of global growth. For years, established multinationals and entrenched global challengers alike have targeted China, India, Brazil, and other emerging markets. These no-longer-new sources of growth are getting harder to tap. Competition is intensifying. The bar for success is inching steadily higher.

In many developing economies, growth has begun to slow, while the trade landscape remains fragmented and increasingly bipolar. Customer expectations have risen—among both retail consumers and business-to-business clients.

As a result of this transition, companies with foresight recognize that their next wave of growth will be achieved by fundamentally transforming their go-to-market activities. They have begun to create advantage from a particularly ripe set of opportunities, as the articles in this chapter highlight:

- Consumer insight has become more critical than ever because customer rules of the road are being written on the fly in a rapidly developing commercial landscape.
- Digital and mobile technologies now allow sales and marketing information and analysis at a more microscopic level than ever before. Rather than dividing China, India, and other populous and diverse countries into a few regions, astute companies can segment these markets into thousands of customer or regional segments—and identify otherwise hidden pockets of local opportunity.
- Companies can boost revenues 5 to 8 percent using *street-smart sales*. This approach arms local sales managers and representatives with new geoanalytical tools and the authority to create compelling offerings for small customer segments. Sales managers effectively become CEOs of their terri-

tories, armed with the freedom and decision rights to execute local strategies.

- While channel management has become a common denominator in developed markets, it remains a great differentiator in RDEs. Companies have an opportunity there to generate stronger ties with retailers, reduce costs, and speed distribution.
- In particular, companies that can adapt to the specific difficulties of in-store execution stand to win big.

Achieving go-to-market transformation in RDEs should be on the radar screen of all global senior executives. Companies that take action today can put themselves on the winning track. Those that delay risk wasting enormous time and resources. More crucially, they squander an opportunity to achieve competitive advantage.

GLOBALIZATION

THE CONSUMER INSIGHT ADVANTAGE

GOING TO MARKET IN DEVELOPING ECONOMIES

Developing markets represent the future for many businesses. Brazil, Russia, India, China, and Indonesia make up 60 percent of the world's population and account for 40 percent of global GDP growth. But companies cannot treat these markets as fledgling versions of the developed economies that have been their mainstay. They must rethink how they go to market in these places, which frequently do not have a state-of-the-art marketing, distribution, or retailing infrastructure. This article is the first in a series on how consumer-facing companies can succeed in developing markets through excellence in consumer insight, channel management, and in-store execution.

CONSUMER INSIGHT CAN BE the beginning of a beautiful relationship with customers—to paraphrase the last line of *Casablanca*. Unless companies understand consumers' unmet needs and create goods and services that have appeal, they will not win customers. In developing markets, this capability is more important than ever because the landscape is changing so rapidly, the rules of the road are being written on the fly, and solid research—the keystone of consumer insight—is hard to gather.

Consider the case of a global fast-moving consumer goods company in India with interest in the nutritional space. When scanning the market for growth opportunities, the company realized that the disease burden in India was going through a dramatic shift. Chronic “lifestyle” illnesses such as diabetes and cardiovascular disease were expected to jump from around 30 percent of the total disease burden in 1990 to almost 60 percent by 2020. Deeper consumer research made clear the willingness of Indian consumers to trade up for products that improve their children's health—insight that unearthed specific opportunities for targeting children.

In response, the company evaluated its global portfolio, identified specific products that would cater to the health needs of children, and accelerated its

launch plan. Further research indicated the importance to consumers of including doctors and nutritionists when selecting the right brands to push, and this then formed the platform for a successful launch. Without the insights generated from local research, the company would likely have continued to apply its global launch priorities in India, hence missing out on a key opportunity to introduce relevant, high-growth products.

The rewards of figuring out what consumers want and acting on those insights can be great. But this is no easy task, given the difficulties of doing business in developing markets.

Real Challenges

In these markets, consumer-facing companies must manage four specific challenges.

Speed of Change. Consumer demographics and preferences are in flux, including dramatic increases in wealth and purchasing power. The number of middle-class households in the Asia-Pacific region is projected to grow from 525 million today to 3 billion by 2030. The middle class in these markets is emerging everywhere, not just in the familiar big cities. In 2010, China had 88 cities with at least 250,000 households classified as affluent or middle class. By 2020, that number will triple. In India, where wealth has historically concentrated in cities, rural consumption is expected to grow by nearly 6 percent annually over the next five years.

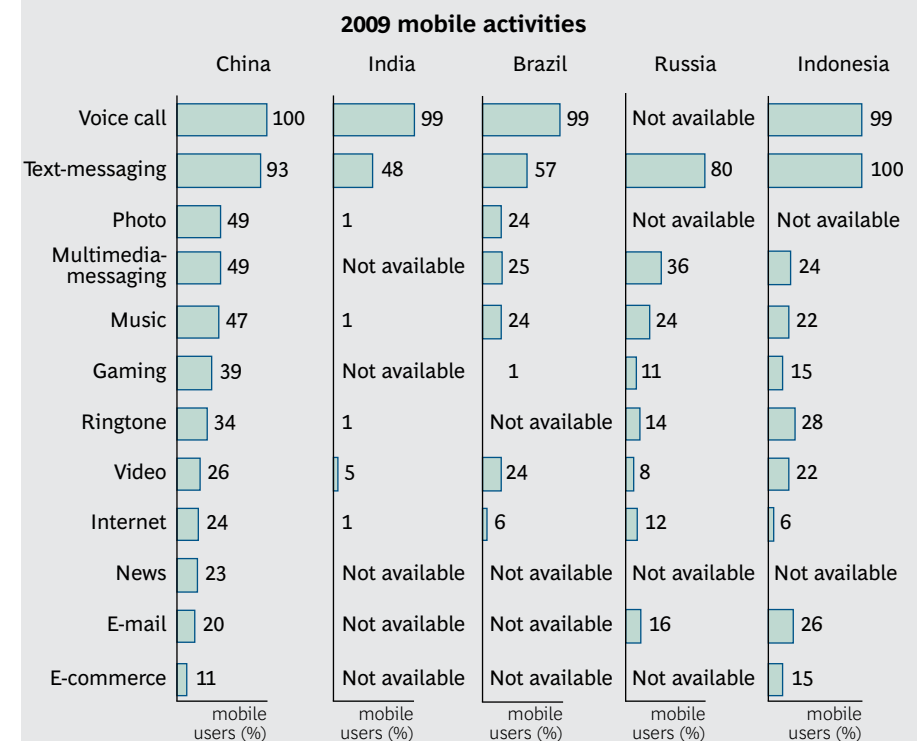
At the same time that its size is swelling, the middle class in developing countries is acquiring more sophisticated tastes. For example, in India, sales of packaged snack foods have been growing by more than 20 percent annually at the expense of traditional street food sold by vendors. This shift reflects rising education levels as well as marketing campaigns that promote packaged foods as healthy, hygienic, and aspirational.

Diversity. Consumer markets in developing economies are even more diverse than in developed economies, where they are hardly homogeneous. Consumer insight is simply harder to come by in a place such as India, which has 22 official languages and hundreds of dialects, or in China, with 7 regional languages. Consumer behavior can also vary widely within a country: Chinese consumers in top-tier cities say they will spend more on products that have meaningful differences, but in lower-tier cities consumers are more likely to trade up for brand names. Across countries with some-

what comparable economic profiles, it is equally difficult to derive and predict consumer behavior. Text-messaging usage, to take one example, ranges from 48 percent of mobile users in India to 80 percent in Russia and 100 percent in Indonesia. (See Exhibit 1.)

Data Limitations. Historical data and current research are scant, and when they are available they do not necessarily illuminate the key issues. In countries such as Indonesia, Brazil, and India, modern retailing—replete with bar codes, scanners, and cash registers that facilitate data mining—is only nascent. It can be challenging to generate insights by analyzing sales of mom-and-pop shops. The complex, multilayered distribution networks in developing markets further obscure the visibility that manufacturers of consumer products have of retailers and consumers.

EXHIBIT 1 | Consumers in Developing Markets Have Different Mobile Preferences



Sources: BCG Digital Generations consumer research 2009; Centre d'Excellence en Technologies de l'Information et de la Communication; China Internet Network Information Center; Enfodesk; Gartner; IDC; The Nielsen Company; and BCG analysis.

In addition, while the statistical bureaus of most developed nations generate high-quality demographic data by postal code, this information is minimal or missing in developing markets. It is frequently out of date and difficult to obtain.

Logistical Challenges. The barriers to conducting proprietary research are high. The scale and scope of these markets—for example, 11 time zones in Russia—can paralyze data collection activities or make them cost prohibitive. Third-party research agencies do conduct primary research and focus groups, but they are spread thin. China has 45 members in the European Society for Opinion and Market Research, the leading such trade association; Russia has 38; and India, 18. The U.S., on the other hand, has 90 ESOMAR members, and the UK and Germany have 174 and 150, respectively.

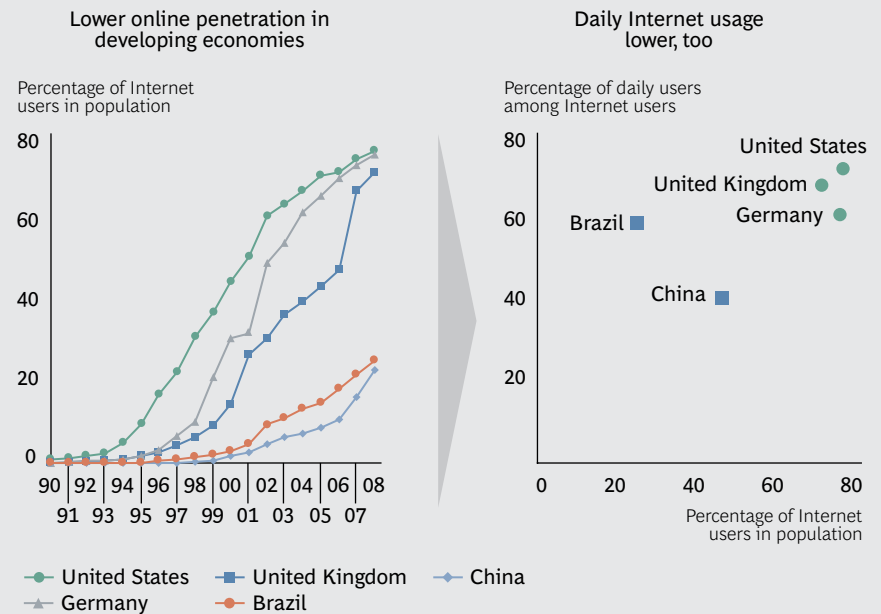
Not surprisingly, research firms in developing markets are unable to conduct research with the same depth and breadth as in developed economies. In China, for example, even the largest agencies may need to outsource field research in smaller cities, and the quality of this research must be closely monitored. Low Internet penetration in such places as China and Brazil, where 40 percent and 60 percent of the population, respectively, are online, also limits the ability to capture quick consumer feedback and to run surveys. (See Exhibit 2.) Online panels—groups that agree to take part in surveys and give customer feedback—can work in developing countries, as long as researchers consider the possibility of sample bias and think carefully about the categories and research needs for which an online panel is appropriate.

The Size of the Prize

The challenges of conducting research and generating consumer insights are worth overcoming. Companies that can confidently conduct research and translate their findings into appealing products, prices, and service levels will possess a weapon that is not easy for their competitors to duplicate.

An Indonesian retail bank wanting to understand why it was underperforming took the time to analyze the market and create a successful transformation plan built on the foundations of market research. It identified the two key drivers of future profitability as a growing customer base and deepening customer relationships. The company then conducted extensive focus groups and consumer surveys that helped it to understand customer perceptions, expectations, and preferences.

EXHIBIT 2 | Internet Penetration in Developing Markets Creates Research Challenges



Sources: Allensbach Institute; Centre d'Excellence en Technologies de l'Information et de la Communication; Economist Intelligence Unit; European Interactive Advertising Association; MagnaGlobal; Pew Research Center; and BCG analysis.

The bank incorporated the attributes that customers care about most into a unique value proposition and brand promise. It defined a future business model that would deliver on this brand promise, and it undertook a broad set of transformative initiatives. The consumer-research-driven strategy proved quite successful. In less than two years, the bank has seen a 40 percent increase in volume.

Unlocking Opportunities

Companies require a strong commitment and a creative approach to conducting research in developing markets. Three steps are key.

- *First, cast a wide net.* Companies should combine primary research with macroeconomic data. Don't just look in the usual places, such as government agencies. There is a rich vein of privately generated research available. Over the past five years, BCG has conducted extensive primary

consumer research in these markets. Other organizations have completed similar work.

Some of this research may still be in raw form. With extra effort, it can frequently be converted into market intelligence. For example, the National Sample Survey of India conducts one of the largest and perhaps least-used consumer research efforts in that country.

- *Second, dive beneath the surface.* Look beyond what consumers say and try to understand what they actually do and what their underlying desires and aspirations are. This may take a little extra effort and some creative solutions. Consumers in these markets often claim to use a product because it connotes status, but they may be overstating the truth. It is possible to cross-check statements made by consumers—for example, by looking at durable goods ownership in a market or by asking for bank statements. Companies can develop a good read on a market by studying the closets and refrigerators of a representative sample of consumers or by following them as they shop. One consumer panel in India does a “wrapper collection,” asking participants to save empty packaging and to keep a usage diary to understand consumption.
- *Finally, build the capabilities.* Create an organizational structure to generate high-quality consumer insight in these markets. If companies cannot buy the research they need at the quality level they expect, they will need to build it themselves by investing in market research teams on the ground. If they do outsource to research agencies, they still need to oversee and spot-check the data in-house.

While these markets are large and sprawling, companies should resist the temptation to spread their research resources too thin. It makes more sense to focus on fewer, higher-impact research projects by testing a few key hypotheses than to comprehensively cover the waterfront.

Most important, the market research team needs to build credibility within the company and engage senior-executive leadership directly. If it is viewed as just another support function, the group will not have the respect and influence it needs to shape business decisions.

An apparel maker in China took this lesson to heart after it suffered several years of declining market share. Initial market research revealed that the

brand had different strengths and roles with different segments of consumers and within smaller cities. Although significant opportunities existed in these cities, the company needed a much deeper understanding of the unique behaviors of specific consumer segments.

The company soon recognized that it could not conduct market research episodically in such a fast-moving market. It is now actively incorporating consumer insight across a broad range of activities from product assortment to marketing messaging. The apparel maker has also expanded the size of its business-intelligence staff in order to improve consumer-driven data-mining capabilities. Based on emerging consumer insights, the company has repositioned one of its main brands, giving it renewed focus and energy.

IN DEVELOPED MARKETS, most major consumer-facing companies understand the benefits of consumer insight. The playing field is not nearly so level in developing markets. Because consumer insight can be so difficult to generate in these countries, companies that do it well will outperform those that do not. But companies cannot produce consumer insight in the same way as in their home markets. Effective research requires planning and organization, including the hiring of more research and analytical staff and paying more attention to their findings. The payoff for the extra effort, however, will be real and enduring.

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WINNING BIG BY TARGETING SMALL

GOING TO MARKET IN DEVELOPING ECONOMIES

WITH OVERALL ECONOMIC ACTIVITY flattening and competition rising, many companies in emerging markets are starting to experience a slowdown in growth. What can they do to revive growth in these markets?

Farsighted companies have started to recognize that their next wave of growth will come by fundamentally transforming their go-to-market activities. Rather than dividing a country such as China or India into a few regions, they are slicing each one into thousands of customer or regional segments in order to unlock local opportunities that would otherwise go unnoticed.

When macroeconomic growth is strong or the market is relatively undeveloped, a broad plan of attack can work effectively to address the basic needs of most customers. But as growth slows and markets mature, companies need new ways to reignite growth. By catering to much smaller segments, companies can discover hidden pockets of opportunity in these richly diverse markets.

It takes more than just smaller slices of the pie to implement this approach. Companies need to arm their local sales managers and representatives with new geoanalytical tools and the authority to create compelling offerings for customers in these small segments. Sales managers effectively become CEOs of their territories, with the freedom and decision rights to execute strategies that will appeal to local customers. We call this approach *street-smart sales*.

The payoff is considerable. Even in markets where growth is tapering, companies have consistently demonstrated revenue gains of 5 to 8 percent over business as usual by following this approach.

Why a Targeted Approach Works

The concept of dividing markets into small geographic or customer segments has been around for decades. What's different now is that digital and mobile technologies allow access to and analysis of sales and marketing information at a more microscopic level than ever before. Companies can quickly gather data from the field without an army of IT specialists and data experts or massive expense.

A consumer goods company, for example, hired 4,000 part-timers to input sales and other retail data on their Android phones at hundreds of thousands of retail outlets in Southeast Asia. This level of detail enabled the company to create more than 1,500 segments from what had been two large regions and to see variations in performance that had previously been hidden. Especially in emerging markets, where so much growth is occurring outside the traditional major metropolitan areas, this approach will help companies focus more sharply on retail sales, consumer perception, and the competitive landscape.

To improve performance, an Asian mobile-telecommunications carrier resorted to this approach on the basis of the coverage footprints of cellular towers. Sales growth had shrunk from nearly 50 percent to single digits in just three years because of market and awareness saturation. By slicing up the market, managers were able to modify pricing and service levels according to available capacity. When a coverage area had available capacity, local managers were empowered to offer customers short-term discounts to encourage usage. On the other hand, when an area was nearing capacity, the carrier instituted tiered service levels so that its most profitable customers would not suffer dropped calls or poor call quality. In pilots, the areas that deployed these creative solutions saw faster revenue and subscriber growth than did other comparable areas.

Street-smart sales also make sense in business-to-business markets. An industrial goods company in India relied on this approach as part of a sales-force-effectiveness campaign in response to increasing competition.

The company's products were sold in several customer segments, but the company's understanding of its performance in those segments was limited, because sales data and industry research were based on product categories. By dividing the vast market into more than 1,000 customer segments, the company could see how end users actually used the products. By talking to

local experts—financiers, large customers, and suppliers—the company could ascertain its market presence, competitive profile, and ability to win within each segment; this information had been unavailable or not easy to act upon in larger geographic segments.

These insights allowed the company to tailor its marketing and promotional moves and fine-tune sales and marketing interventions. They also helped it address specific gaps in repair and service availability, the quality and footprint of its sales network, and the competitiveness and brand strength of its products in specific segments. Early pilots suggest that the changes could increase market share by 3 to 5 percentage points.

How Street-Smart Sales Change Business as Usual

Street-smart sales require companies to work differently. As an initial step, companies need to splinter their regions or segments. The new groupings should be sufficiently specific that they display distinct customer, competitive, and performance profiles.

The creation of new boundaries is simply the start of what is essentially a more comprehensive approach to going to market, which involves five elements.

Capabilities. The field staff will have to learn new ways of thinking and working. It will need to combine the art of closing a sale with the science of analyzing market intelligence, sales, market share, and geoanalytical data. This new approach requires training, development, and encouragement. Sales representatives are sometimes reluctant to take on these broader duties until they see the results.

Tools. The field staff will require technologies to capture market knowledge and generate dynamic geoanalytical insights. As the Southeast Asian consumer-goods company discovered, these tools do not have to be industrial grade. Excel spreadsheets, cell phones, and foot soldiers work just fine.

Governance. Local managers will have more authority to tweak offerings and even pricing in some cases. The performance metrics of sales managers and field staff will need to be expanded to include their ability to develop insights from geoanalytics and to devise go-to-market plans.

While less involved in top-down direction than in the past, the center will ensure a degree of consistency in pricing, distribution, and marketing segments. One option is for the center to develop a simple playbook that

defines the scope of decision making available to the field—for example, the level of discounts or the degree of modification in the offering.

Organization. To facilitate the sharing of best practices and ensure that the new way of working is taking hold, organizations should assign managers or small teams to monitor the performance of these new segments and train the sales force. These teams must be viewed as the sales force’s allies, not adversaries.

Processes. Street-smart sales occur on the ground but should be integrated into business processes such as sales and operating planning, capital budgeting, and—for telecom companies—network planning. The data and inputs generated in the field must be fed back to the center so that the company can adapt to market conditions and spread best practices.

Getting It Right

Street-smart sales represent a departure from the traditional go-to-market approach, especially the relationship between the center and the sales force. Here are a few common protests that leaders may encounter in their effort to adopt street-smart sales.

Our people will resist. Sales teams are sometimes reluctant to take on more responsibility. They may be uncomfortable moving from a “doing” role to a “doing and thinking” role or they may initially be unwilling to perform work once conducted by the center. More likely, in our experience, the center might be wary of delegating analytical work to line employees. Company leaders can break through this resistance on both sides by visibly supporting the sales teams and providing them with resources such as training, tools, and redrawn decision rights. This approach will give the field staff a new source of insight and power, and the center the confidence that the field staff is prepared for its new duties.

The required data is too hard to get. In emerging markets, even reliable high-level data is hard to come by, let alone detailed data. However, a little resourcefulness and optimism can go a long way. Executives at the Indian industrial-goods company achieved a 70 to 80 percent confidence level in their insights by gathering estimates from local market experts, channel partners, and senior sales representatives.

Street-smart sales require fancy technology. In mature markets, this approach is often associated with sophisticated CRM software, big data, and

heavy-duty analysis. In emerging markets, however, most of the basic tools are well within the reach of most companies. The Indian industrial-goods company started with fairly basic spreadsheet models and tools to monitor performance and suggest sales leads, while the consumer goods company built a simple smartphone application.

It will be too hard to implement. If street-smart sales were easy and obvious, the approach would have been adopted a long time ago. This approach works because it forces companies to make hard choices on the basis of their analysis of areas of strength, weakness, and vulnerability, and allows local managers to modify practices to address the differing landscapes.

For street-smart sales to work effectively, not all segments will be treated equally. They will receive different levels of resources and operate under different commission structures. This can be difficult for executives accustomed to equal treatment to accept. In our experience, people will accept the changes if they understand the rationale behind them and trust that they are being implemented fairly on the basis of solid analysis rather than hunches.

STREET-SMART SALES represent the future of go-to-market activities in emerging economies. Regional, national, and often metropolitan-area segments do not capture the nuances and niches within these dynamic markets.

By breaking their marketing map into small pieces, companies are building a strong foundation for future growth. They will increase sales, strengthen the capabilities of their sales force, and gain an edge over competitors that don't recognize that big things happen when you think small.

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GLOBALIZATION

THE CHALLENGE OF CHANNELS

GOING TO MARKET IN DEVELOPING ECONOMIES

IN DEVELOPED ECONOMIES, the rules for channel management are fairly straightforward. Companies can focus on the modern retail landscape of large hypermarket and convenience-store chains and rely on a limited number of partners to handle distribution and a lean sales force.

In developing markets, however, this familiar playbook will not fly. Modern retail—though growing rapidly—is a relatively new format and does not account for most of the market.

But if channel management has become a common denominator in developed markets, it can be a great differentiator in developing markets. Companies have a unique opportunity to generate stronger ties with retailers, lower costs, and lubricate and speed their distribution channels.

We Are Not in Kansas Anymore

Traditional trade remains the dominant retail channel in developing markets. Depending on the country, mom-and-pop shops still make up between 40 and 90 percent of retail sales.

The mix, however, is changing quickly, with modern retail formats growing annually by 20 percent in the BRICI nations—Brazil, Russia, India, China, and Indonesia. For the foreseeable future, companies will need to operate in this hybrid environment, which only intensifies and complicates the channel challenges.

Rather than simply targeting the headquarters of a single large chain, companies must work with a huge number of small, independent outlets. These traditional-trade customers—with their limited working capital for

purchasing goods and limited space for stocking and displaying goods—are costly to serve. The only practical way to reach many of them is through a fragmented network of third-party agents, distributors, and local wholesalers. This complex distribution landscape shrinks the margins of all channel partners and reduces the upward flow of market intelligence and visibility to the company.

Distributors and wholesalers can be difficult to manage, as well. They typically focus on the top line rather than market development. They tend to be passive order-takers rather than passionate advocates of brands. Sales force turnover can be anywhere from 20 to 70 percent per annum.

Distribution outside of major cities is a particular challenge because of the concentration of traditional trade. In China, for example, modern retail formats represent less than 30 percent of grocery sales volume in tier 3 and 4 cities, compared with more than 50 percent in tier 1 cities.

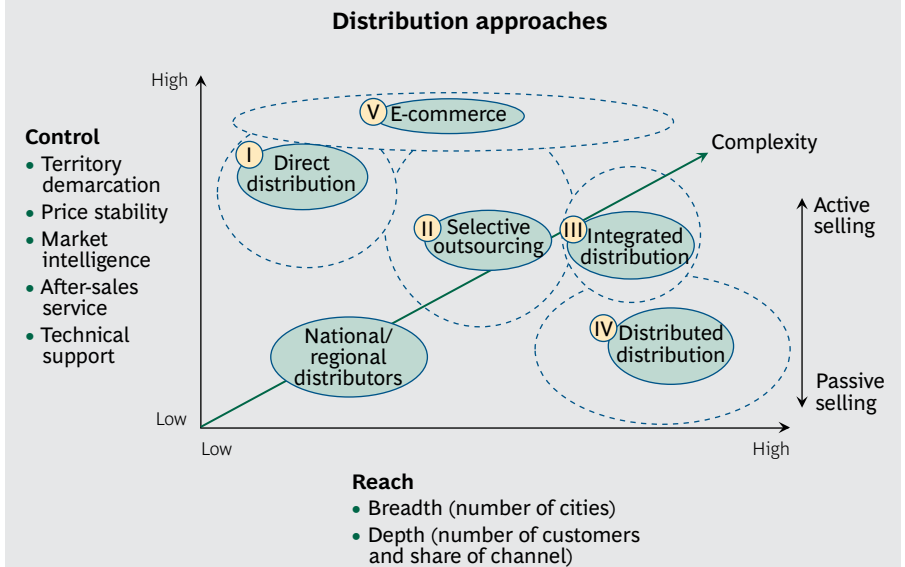
Choosing a Model

The overall goals of channel management are the same in developed and developing markets. Companies want broad coverage; they want their products to reach the right consumer segments. They want retail advocacy, with loyal retailers influencing customers' purchases and creating below-the-line, targeted promotions. Finally, they want consistent and innovative point-of-sale execution, so that consumers have confidence in the brand.

In order to achieve these goals, companies generally rely on one or more of five sales-and-distribution models. Each offers various trade-offs in reach, control, and complexity in these markets. (See the exhibit “To Create a Winning Model, Companies Must Balance Reach, Control, and Complexity.”)

Direct Distribution: High Control, Limited Reach. Companies in industries with a few large customers, such as industrial goods, or in industries in which pricing consistency or customer experience is important, such as luxury goods, will likely want to maintain their own sales force and distribution. This model is very expensive to scale because of the cost of building out sales and distribution networks in fragmented retail landscapes.

To Create a Winning Model, Companies Must Balance Reach, Control, and Complexity



Source: BCG analysis.

Selective Outsourcing: Medium Control and Reach. If they are willing to sacrifice some control, companies can maintain their own sales force while selectively outsourcing less critical functions, such as delivery and collection. The need to retrain and improve the skills of an entire army of distributors and their sales personnel is not as daunting, since distributors are playing only a limited role. Customer reach, however, remains limited by the coverage of the sales force and therefore is challenging in highly fragmented, low-throughput retail environments.

Integrated Distribution: Medium Control, High Reach. In this model, companies actively partner with large distributors, often on an exclusive basis, so that they can guide, shape, and build their capabilities. These relationships increase complexity but enable companies to have greater influence on the distribution and retail presentation of their products. Companies often influence the distributor's internal processes, KPIs, sales incentive schemes, IT systems, and training in order to get better visibility and more consistent superior execution. This model relies on the willingness of distribution partners to adopt new practices and the ability of the company to actively manage extensive capability building.

Distributed Distribution: Low to Medium Control, High Reach. Rather than work with just a few distributors and wholesalers, companies can work with many of them. The organization sacrifices significant control but is able to rapidly roll out products at lower costs. This model would allow companies to tap into the fast-growing middle class in tier 3 and 4 cities and would be effective with products that do not demand a high-touch sales approach or significant point-of-sale execution capabilities.

E-Commerce: Breaking the Trade-off Between Reach and Control. E-commerce can help knit together the far-flung regions of developing markets without incurring the cost of a large sales force or branch network. In Russia, where most of the country is underbanked, online banking can improve access to financial services in remote areas. Likewise, in India, banks are experimenting with mobile-banking services operated through direct-sales agents. These agents travel on mopeds and operate a mobile ATM-like device that can process basic banking transactions.

E-commerce is gaining rapid momentum in developing markets. In 2009, countries such as China, Russia, and Brazil already had Internet penetration rates in excess of 30 percent. China's retail e-commerce volume has dramatically grown from \$18 billion in 2008 to \$70 billion in 2010. While e-commerce may not be a standalone option, it should be a part of a multichannel strategy for companies in developing markets.

Creating a Winning Channel

Most companies employ more than one model to reach consumers in developing markets. For example, a phone manufacturer reaches consumers in developing markets through three channels. On key retail accounts, the company handles sales and after-sales services in-house but outsources logistics, inventory, and credit and collection to distributors. To reach operator-owned shops, the company works more directly with the operators themselves. Finally, to reach traditional trade, the company works through a network of regional distributors that it actively manages.

Once a company has selected a channel strategy, it needs to focus on execution, execution, and execution. In fact, execution of a model is more critical than the selection of the model. Companies must influence hundreds of thousands of retailers and points of sale indirectly through dozens, not hundreds, of their own staff. Most companies have tremendous opportunities to gain mastery over execution. While successful execution depends on doing a long list of things right, there are a few key factors that matter the

most—especially for companies working through large distributors using the models of selective outsourcing and integrated distribution.

Choose the right partners. Companies need to thoroughly vet channel partners. Can they take on the full range of sales and distribution tasks? What is their geographic coverage? Are they passive or active distributors? Are they financially stable? How strong are their underlying capabilities? Since most of them are relatively inexperienced, are they willing to learn and change? Are they willing to become an extension of the organization?

Establish the right structure and distribution setup. Companies have to carefully consider how to organize distribution. There are many interrelated issues: the boundaries between and size of territories; the number of account managers per distributor; rules on exclusivity; the split between direct distribution and indirect distribution; and the projected profitability of distribution partners. All of these issues require careful thought and should be reevaluated over time. Despite having an active presence in a developing market for more than 50 years, a large consumer-goods company, for example, recently collapsed its decentralized distribution model into a few large national distributors.

Build internal capabilities for active channel management. Many companies are unaccustomed to taking on the active and disciplined management of channel partners. They will need to change the culture and mindset of their sales force, instill a greater sense of accountability, and create a set of KPIs that encourage stronger collaboration with channel partners.

The partners also need to be evaluated against performance-based KPIs and targets. KPIs should include both leading and lagging indicators. If partners are performing strongly on leading indicators, such as direct retail-store visits, coverage, and product knowledge and market intelligence, then performance on lagging indicators, such as sales growth, will follow.

In addition, creating “sense and response” capabilities by building dynamic and granular market intelligence and acting on these insights can be a powerful lever for companies to lift performance at the microlevel.

It is important that executives with the right level of authority and responsibility are interacting with their peers at the channel partners. “Layer matching” helps create greater accountability and execution. For example, an area sales manager should be dealing directly with the operational manager and

sales supervisors of the distributor on a daily basis, while a regional sales manager might only meet with the distributor's owners and key executives to develop business plans.

Enable the channel partners to perform. Channel partners in these markets are changing and growing as rapidly as the markets themselves. Their sales forces are typically young and inexperienced, while attrition levels are high. Working with these partners requires more intervention than in developed markets but is worth the effort.

Companies need to train staff at their distributors and provide assistance in day-to-day management and monitoring. They also might help pay for inventory management systems that will ultimately help to increase their own sales and profits.

ANYONE WHO HAS visited a developing country can imagine the challenges of channel management in these places. What is routine in the West can quickly become frustratingly complex. Creating a winning channel requires not just getting the channel strategy right but also achieving mastery over execution. Achieving this mastery requires a reset of channel capabilities that need to be built and delivered on the ground. Companies that place a premium on both will be rewarded with superior performance.

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GLOBALIZATION

HOW TO IMPROVE IN-STORE EXECUTION

GOING TO MARKET IN DEVELOPING ECONOMIES

THE CENTER OF GRAVITY for consumer-focused companies is subtly but unmistakably moving toward developing economies, such as Brazil, Russia, India, China, and Indonesia. The middle class in emerging markets will make up 30 percent of the global population by 2020. These customers represent the future.

Meeting their needs can be daunting. Retailing in developing markets is highly fragmented, and going to market requires a different set of strengths and commercial relationships than in developed markets. Consumers have vastly different levels of disposable income and extremely different needs and wants. They are accustomed to a shopping experience that is unlike what consumers in more developed markets are used to. At the same time, consumers in developing markets are less jaded and more trusting of pitches, promotions, and displays inside stores.

Many of the tried-and-true principles of in-store execution are universal. No matter where they live or how much they earn, consumers respond when they are offered the right products, at the right price, and in the right retail environment. But achieving that alluring mix of product, price, and environment is especially challenging in developing markets. Companies that can adapt to the specific challenges of in-store execution in these markets stand to win big.

This is our final piece on achieving a go-to-market advantage in developing economies. Prior articles covered the challenges of understanding what consumers want and moving goods and services to the outer reaches of global-distribution networks in the markets. While these articles are oriented toward consumer goods and retail companies, they are relevant to any organization—such as banks and telecom providers—that serves consumers. We collectively call them brand companies.

Developing Markets Are Different

Consumers in developing markets are facing a widening array of choices that are at once appealing and confusing. Local companies and multinationals are investing heavily in new products in these markets. But consumers do not yet have access to the same level of information and research as they do in developed economies.

The number of product launches is exploding in emerging markets, providing consumers with greater choice than they have historically enjoyed. India, for example, has more than 70 brands and 200 types of soap. Products are often sold in cramped and crowded shops that are not conducive to easy or comparative shopping.

Consumers frequently make their decisions about purchases while in the store and are heavily swayed by displays, floor representatives, and other point-of-sale influencers. (See the exhibit “Appliance Customers in China Respond to In-Store Promotions.”) In surveys of customers shopping for appliances in China, less than 20 percent were sure what brand they would buy, and less than half had narrowed their choice to a short list of models. The rest went into the store with a fairly open mind about brands, models, and features.

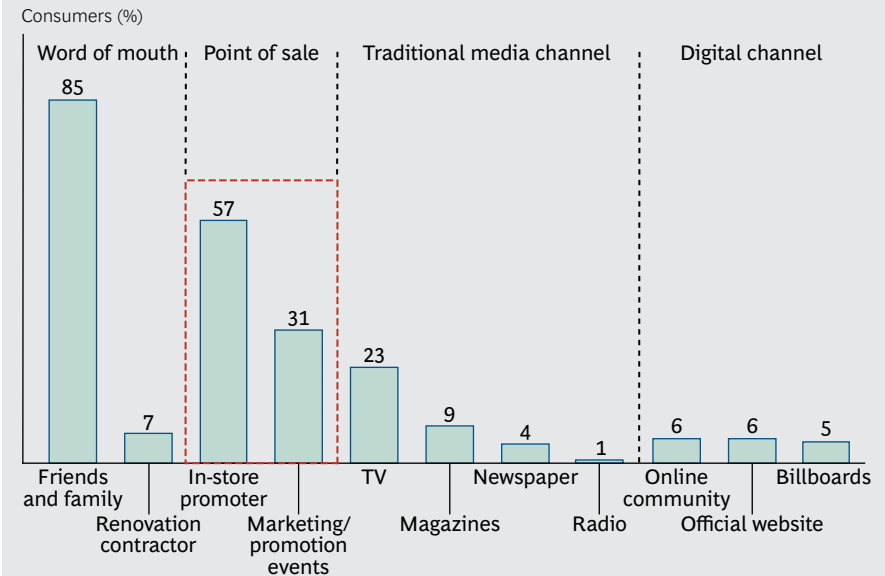
Depending on the size of the market, between 35 and 55 percent of consumers in China say elements of in-store execution, such as the recommendations of a sales representative or display material, are helpful in their decision making. More than one-half of consumers in Indonesia don’t decide which mobile phone they will buy until they get inside a store. In India, surveys suggest that more than one-half of purchases of over-the-counter nutritional products are influenced by retailers.

These findings suggest that consumer companies have a great opportunity to reach and influence shoppers inside the store. But it will not be easy. Consumers tend to be dissatisfied with the in-store experience in developing markets. In China, for example, only 30 percent of home appliance shoppers agree that salespeople are knowledgeable enough about their products.

The complex retail landscape in developing markets also makes reaching consumers challenging. Retailing is dominated by traditional trade (mom-

Appliance Customers in China Respond to In-Store Promotions

What influences you when deciding which appliance brand to purchase?



Source: BCG proprietary consumer survey about appliance sales conducted in 28 cities in China, March 2010. N = 2,061.

Note: Shows tier 1 cities only; the pattern is similar in lower-tier cities.

and-pop shops) and modern formats—polar-opposite environments that cannot be managed with the same processes and systems. Companies do not face this schizophrenia in developed markets.

Traditional trade accounts for a significant share of retail sales in developing economies. Less than 10 percent of India’s \$425 billion in retail sales in 2010 occurred in modern formats. Nearly all grocery shopping takes place in mom-and-pop stores. In China, more than 5 million small shops sell food and beverages. There are nearly 750,000 stores on Indonesia’s nearly 1,000 inhabited islands. The small size and large numbers of these stores have three significant consequences.

First, companies need to manage a galaxy of distributors and other third parties to reach consumers. In Russia, a consumer goods company must work with at least 100 distributors to ensure adequate coverage. In China,

companies typically have to have a relationship with at least one distributor in each city—and China has 650 official cities.

Second, companies need to rethink their sales-force strategies. They cannot rely on traditional methods to train and monitor the members of their sales force, many of whom work for third parties.

Third, product display and merchandising—the bread and butter of modern retailing—are difficult to manage. Retailers have limited inventory and selection. The products on the shelf can easily get pushed aside or hidden. A typical store in India will have hundreds of products crammed from floor to ceiling into 500 square feet of dimly lit space. Customers must ask store employees to retrieve most of the products because they are out of reach.

Modern formats, such as department stores, make up a relatively small but rapidly growing percentage of sales—ranging from 20 to 40 percent, depending on the category. Traditional trade still makes up the majority of sales, and companies must stretch themselves to manage both formats. To add to the challenge, modern retailers in rapidly developing economies can be more difficult to work with than their Western counterparts. For example, in China, these retailers tend to be more decentralized than their peers in the West and delegate more responsibility to their suppliers.

Decisions about product assortments and displays are frequently made at the store level, especially in China. Consumer goods and other companies that are accustomed to building relationships with staff at the center of retailers may have to mirror the decentralization of their customers. Local staff will increasingly need the authority to make decisions that may be made by headquarters in other markets.

Retailers frequently operate under the supplier-representative model in which consumer goods and other brand companies are responsible for supplying their own in-store promoters. In China, appliance makers are responsible for building and staffing their display space within stores. Some retailers even operate under a landlord-tenant relationship with their suppliers.

These arrangements essentially require brand companies to develop in-store capabilities, such as training and managing retail staff, merchandising, and designing displays. To illustrate the significance of this operational shift, a consumer electronics manufacturer in China would need a sales staff of

5,000 just to place two or three representatives in each modern electronics store.

Same Tools, Different Setting

Companies do not need to reinvent the strategies and tactics that have worked in developed markets. They need to reimagine them and apply them in extreme settings. In-store execution rests on three building blocks:

- Understand the habits, patterns, and preferences of shoppers.
- Design a point-of-sale execution strategy.
- Create an effective way to monitor and reward sales and promotional personnel.

Understand the habits, patterns, and preferences of shoppers. It's not enough to be aware of the types of goods and services that customers desire in various markets. Brand companies also need to understand how and where they shop, who they trust, and what they expect from a store. In developed markets, many brand companies understand the retail environment and the way that various types of consumers shop. They have a segmented and nuanced understanding of the entire shopping process.

Companies need to develop a similar understanding of shoppers in developing markets. These consumers represent the future of global retailing and ought to be understood on their own terms.

Deep insight in these markets, especially in small towns and rural locations, can be costly compared with the disposable income of many consumer segments. Companies will have to be creative, perhaps combining quick research with trial-and-error approaches or educated hunches about what will work. This is especially true in the traditional-trade sector, which will continue to be the largest retail segment in most developing markets for the foreseeable future.

This research should heavily influence product assortment and service strategies at the regional and even the store level. A consumer electronics company in India, for example, appealed to customers by creating 90 plano-grams—diagrams of product placements and displays within stores—on the basis of income distribution, demographics, and traffic of retail outlets.

A mobile-device manufacturer that wanted to increase sales in India and Southeast Asia segmented stores by type—specialists, electronic chains, mass merchandisers—and size. It then created different offers based on the types of shoppers that frequent each store and the needs of the retailer.

What companies cannot do is make blanket assumptions about the shopping experience in developing markets. Even though modern-trade retail stores in China, for example, are starting to resemble those in the West, consumer behavior inside the stores can be very different. And across China, shoppers in smaller cities and tier 1 cities are not the same.

Design a point-of-sale execution strategy. Armed with this understanding of customer segments, companies can create activities, displays, promotions, product mixes, and staffing arrangements that will help make customers comfortable and lead to higher sales. Brand companies may not have traditionally emphasized point-of-sale activities in many of these markets because of uncertainty over whether the returns would justify the investment, especially in traditional trade. In fact, as the surveys cited earlier show, consumers are receptive to in-store promotional activities. The challenge is in creating compelling shopping experiences in a diverse retail environment.

There are few hard-and-fast rules, so companies need to experiment and adapt to what works. A telecom operator in India, for instance, generated surprisingly successful returns simply by upgrading the quality of its promotional material from cheap paper to laminated posters.

Create an effective way to monitor and reward sales and promotional personnel. Traditional sales-force-effectiveness strategies need to be rethought in developing markets. Brand companies are working through a collection of third-party representatives to reach the traditional-trade segment and will frequently have an unfamiliar retail presence in modern formats.

But despite these differences, companies should insist on a level of rigor, standardization, monitoring, and measuring when going to market. Many of the traditional metrics, such as trade spending as a percentage of revenues, still apply. Ensuring compliance with pricing, inventory, and other standards is also critical. Mystery shoppers—individuals sent by companies to investigate the retail environment—can help provide qualitative insights that

brand companies are accustomed to collecting, but they can also generate quantitative metrics in these markets.

A consumer products company developed a program to monitor the retail performance of its product line in Southeast Asia. It sent representatives into stores to track product positioning, compliance with planograms, and inventory levels. High-scoring stores received discounts and free merchandising material. The representatives were equipped with portable electronic devices that allowed them to input scores, take pictures, and upload results.

Multinationals should also study the practices of local companies in developing markets. Many of the most successful food companies in India forego spending on advertising and marketing in favor of ensuring prominent in-store placement of their products. They design bright and colorful packaging, offer incentives to retailers, and provide them with display racks, bins, and other devices.

GOING TO MARKET in developing markets can be richly rewarding for companies that take the time to understand their shoppers and stores and create tailor-made programs. Three questions will help determine where you stand.

- Have you invested in creative, intensive, on-the-ground shopper research to understand the local retail context and shopper and retailer needs in each of your key markets?
- Are you actively working with local retailers to create an inviting environment and build credibility in the products?
- Have you designed systems to track performance of and reward the people responsible for building share in these markets?

Companies need to approach developing markets confident that they will be able to capture share. While the rules are the same, the playing field is completely different. Fortunately, the game has only just started.

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FURTHER READING

Redefining Brazil's Emerging Middle Class: How to Prepare for the Next Wave of Consumption Growth, BCG Focus, July 2013

The Dynamics of China's Next Consumption Engine: The Age of the Affluent, BCG Focus, November 2012

The Tiger Roars: Capturing India's Explosive Growth in Consumer Spending, BCG Focus, February 2012

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