

Recalibrating for Growth: Manufacturers Use CRM to Identify and Capture New Opportunities

CASE STUDY

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IDC MANUFACTURING INSIGHTS OPINION

The manufacturing industry is emerging from volatile economic times with a renewed focus on capturing profitable growth through innovative products, new markets, and higher levels of service. Many companies in the industry are rethinking their sales and marketing processes as well as their use of customer relationship management (CRM) software.

Some key findings from the research include:

- The majority of manufacturing companies are still in the earliest stages of sales and marketing process maturity.
- Revenue capture can increase as much as 15% through a concerted effort to transform these processes.
- At the same time, sales and marketing costs can be reduced by as much as 14%.

IDC Manufacturing Insights advises manufacturing companies to do the following to improve sales performance:

- Assess their level of maturity using the CRM maturity model.
- Build a justification for investing in transformation using the benefits outlined in this document.
- Use technology investment to underpin and enable the transformation effort. Make sure the CRM application not only can bring automation to the complete attract-sell-serve process but also can support business intelligence and collaboration with key sales partners.

SITUATION OVERVIEW

Near-term efforts to conserve cash and cut costs have helped manufacturers mitigate the impact of economic uncertainty and prepared them for new opportunities in recovery. A critical success factor for companies looking to regenerate profitable growth will be the ability to take advantage of new revenue opportunities.

Revenue Growth for Manufacturers Comes from Three Sources

Revenue growth in post-recession global markets will not be a matter of simply turning on the product flow and waiting for the customers with pent-up demand to come knocking on your door. Rather, three key areas will resurface as the engine for gaining share and increasing profitability:

- **More targeted products.** The number of new products introduced each year has been steadily increasing. The objective is to serve more narrow market niches with product variations. For example, in the consumer packaged goods segment, more than 35,000 new products are introduced in the United States each year, triple the number of less than 10 years ago.
- **Emerging markets.** Even through the recent economic difficulties, strong emerging economies in China, India, South America, and Eastern Europe continued to grow at rates between 4% and 8%. As normal activity returns globally, we expect these regions to return to double-digit growth rates. Reaching these markets is essential to driving new revenue.
- **Services.** Companies such as General Electric refer to what they sell not as products but rather as "service platforms," understanding that the money they make on what happens after the customer takes title to the asset is equal to or more than the money they make on the sale of the asset itself. For example, Apple makes more profits on iTunes than it does on sales of the iPod. Revenue growth for many companies will depend on their ability to offer services on top of the products that they sell.

The ability of manufacturing companies to capture these opportunities will depend on the consistency, internal integration, and extension to key channel partners of their fundamental selling activity — how they attract customers, how they sell their products, and how they meet their service-level commitments.

Most CRM Processes at Manufacturers Are Not Optimal

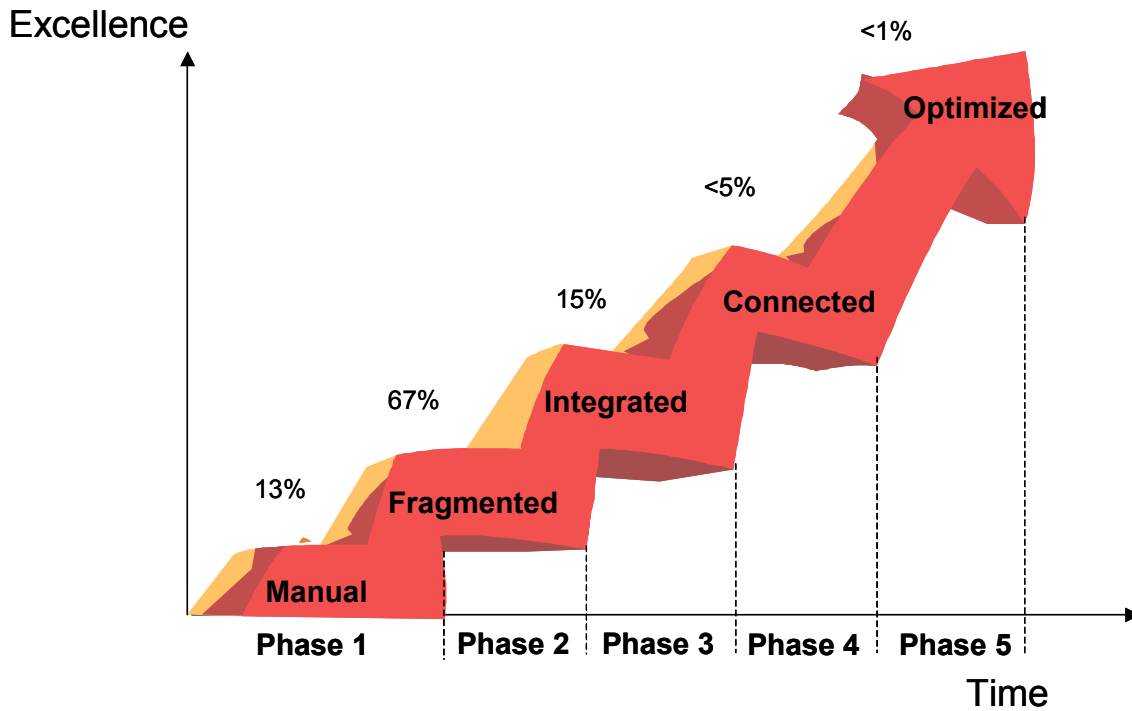
IDC Manufacturing Insights has developed a maturity model for customer relationship capabilities. Five distinct stages are identified in the model:

- **Manual.** Very little automation is used beyond spreadsheets and basic email. Channel agreements, marketing programs, and proposal preparation are recreated for each individual circumstance. The collection of customer service incidents is ad hoc.
- **Fragmented.** Process-specific software is used to support promotions, selling, and service, but there is little integration between the applications. Two-thirds of manufacturers are in this category.
- **Integrated.** Fifteen percent of manufacturers have moved into this stage, where various functional applications are deployed and well integrated for internal efficiency.
- **Connected.** After getting their internal integration in order, manufacturers that have reached the connected stage have extended and integrated their processes with key external channels — distributors, wholesalers, authorized resellers, retailers, agents, and commerce Web sites.
- **Optimized.** Once integrated and connected, manufacturers can move to the highest stage of maturity, optimized, where continuous improvement of the sales processes across the value chain is the norm.

Ongoing research shows that 80% of manufacturing firms worldwide are in either the manual stage or the fragmented stage (see Figure 1).

FIGURE 1

Customer Relationship Management Maturity Model



Source: IDC Manufacturing Insights, 2010

Companies that actively pursue the journey toward an optimized capability will enjoy higher revenue capture, lower sales costs, and higher levels of partner and customer satisfaction.

FUTURE OUTLOOK

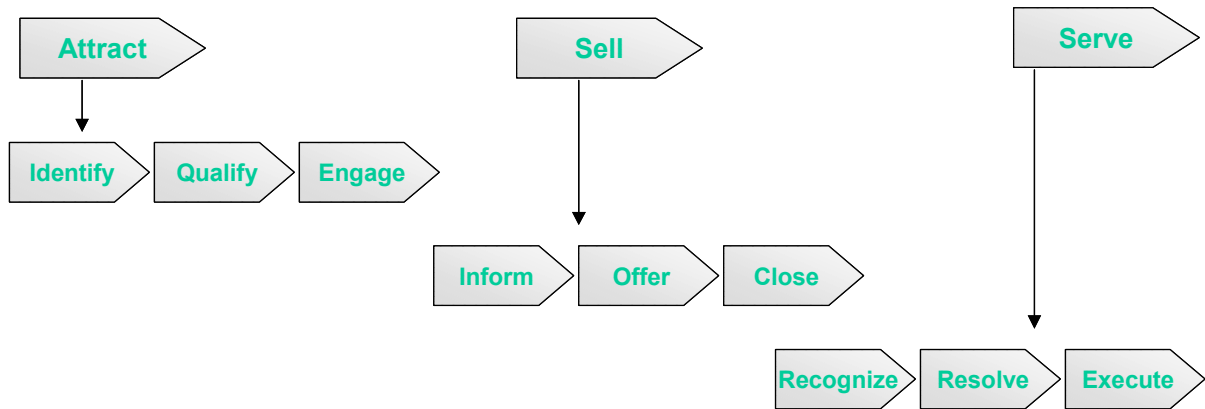
Deployments of CRM applications have mirrored the process maturity of manufacturers. Many have deployed point solutions for specific tasks with sparse capability in providing an integrated platform for the full range of sales and marketing activity. This lack of an integrated platform has inhibited manufacturers' abilities to harmonize their activity with key channel partners. To prosper in economic recovery, companies will look to establish more consistent processes, encourage collaboration, and enable faster, better decision making.

Manufacturers Will Look to Support the Full Process

The sales process follows a pattern of attracting prospects, selling products, and serving customers, as shown in Figure 2.

FIGURE 2

The Integrated Sales Process



Source: IDC Manufacturing Insights, 2010

Of course, this linear process in practice is more of a cycle or closed loop process. Enabled by business intelligence, the knowledge gained from one cycle should always serve to improve the next. This continuous improvement is the essence of the optimized stage of maturity. Table 1 illustrates how the integrated sales process is transformed through the stages of maturity, creating the foundation for reaching an optimized state.

TABLE 1

The Integrated Sales Process at Different Levels of Maturity

	Attract	Sell	Serve
Manual	New business is based on business cards and phone calls. Manual filing and spreadsheets track prospects.	Rough templates for proposals, custom pricing for each deal, and highly manual follow-up.	Lots of phone tag and manual problem resolution. Some procedures, but not implemented in an automated way.
Fragmented	Islands of automation, usually centered on a contact manager application, but minimal process automation.	Usually limited to rudimentary sales force pipeline tracking. No automated pricing, information delivery.	Basic trouble ticket processing. Minimal integration back to customer histories.
Integrated	Full support identifying, qualifying, and engaging sales leads. Basic connection of campaigns to the selling process.	Fully integrated inform, offer, and close selling process, including pricing, product information, and customer needs management.	Blended call center, self-service, and proactive support for recognizing and resolving customer questions and issues.
Connected	Attract, sell, and serve process fully integrated internally and extended externally to key sales partners (e.g., wholesalers, distributors, resellers, agents, retailers) and customers.		
Optimized	Full closed loop management of the process that creates an integrated sales process that is continuously improved by maximizing results while minimizing costs.		

Source: IDC Manufacturing Insights, 2010

These stages are well coordinated internally in companies that have moved to the integrated stage of maturity. Marketing activity feeds the top of the pipeline by managing campaigns that attract prospects. Selling and account management address the resulting opportunities and more effectively propose products that meet the prospect's needs. In addition, the post-order service activity ensures successful execution and drives repeat business with existing customers.

The ability to extend these processes to external trading partners defines a company moving to the connected stage of maturity. Manufacturers rely on wholesalers, distributors, resellers, dealers, retailers, agents, and various other selling partners to grow revenue efficiently. Incorporating these important external constituents in an integrated, harmonized process will generate competitive advantage and greater partner loyalty.

One mistake many manufacturers make when transforming their sales and marketing processes is to not pay enough attention to having sufficient feedback loops to assess performance. While "leaning out" the sales process will have immediate benefits, sustaining and driving

further benefits requires company-wide transparency to the efficacy of marketing campaigns, the success rate of the sales force, and customer satisfaction with service levels. In fact, companies that reach the optimized stage of maturity will be defined by their ability to continuously improve the process, and this is enabled by accurate, timely, and complete reporting.

CRM Applications Enable Transformation

The CRM application market is characterized by mature products, and a handful of vendors can support the full range of sales and marketing processes. Using a CRM deployment to underpin a sales and marketing transformation is wise, but be sure to engage vendors that not only can support the full breadth of the attract, sell, serve flow but also can extend those processes externally and provide integrated analytic capabilities that will support continuous improvement.

Additionally, functionality that is particularly important to manufacturing firms should be supported. Most notably:

- **Selling through channels.** In addition to basic collaboration tools, many industrial segments have specific processes with their channel partners that must be supported. The administration of market development funds via programs such as cooperative advertising (essentially subsidizing the partner including your company's products in a promotional campaign) is a good example. Better tools can improve conversion rates by 7–15% while lowering channel administration costs between 5% and 7%.
- **Selling direct.** Other manufacturing industry segments rely on a highly qualified, expensive sales force. The pharmaceutical industry, for example, employs highly educated individuals to call on doctors and hospitals. The ability to give these expensive salespeople a complete view of all activity with a particular customer just prior to the point of contact is critical. Salespeople in the pharmaceutical industry typically get less than 10 minutes per meeting with a doctor and must make that time as productive as possible. Again, applying CRM tools can improve conversion rates in direct selling by 15–20% and lower costs between 6% and 8%.
- **Complex bids and proposals.** Other manufacturing segments, particularly those selling complex equipment, must engage in a complex bid response and pricing process through either partners or a direct sales force. The ability to provide guided selling capabilities to properly specify and price an offer is critical for manufacturers in this category. Better pricing and tracking of quotes can elevate revenue capture by 10–12% while lowering sales costs by 12–15%.

Any CRM investment that is made in connection with a transformation or performance improvement initiative must take into consideration not just the support of the complete process but also the ability to support industry-specific requirements. CRM becomes the foundation for supporting the key pillars to profitable growth mentioned at the outset of this paper — new products, emerging markets, and services on top of products — while dealing with the unique requirements of the manufacturing industry.

Making the Business Case for Transformation

Supporting company objectives for profitable revenue growth is the typical driver for considering a marketing and sales process overhaul. Looking at how the initiative can simultaneously raise revenue and lower the cost of the process should provide sufficient quantified benefit at each stage of the process:

- **Attracting prospects.** Even if conversion rates (from prospect to customer) don't improve, getting more prospects into the pipeline will improve revenue. Of course, a more effective qualification process should also improve conversion rates and generate incremental revenue. Also, through better analysis of marketing campaign effectiveness, the number and cost of specific events can be trimmed, lowering overall costs.
- **Selling products.** A better understanding of customer requirements, better communication of product features, and a disciplined follow-up process with prospects will lead to higher conversion rates. An accurate contact management database and automated sales processes will make salespeople more efficient and lower overall sales costs.
- **Serving customers.** A reputation of responsiveness can enhance a manufacturer's standing with customers. Higher levels of satisfaction lead to a higher rate of repeat orders and larger order sizes. Making call center employees more efficient and incorporating the appropriate level of customer self-service will lower a company's cost to serve.

IDC Manufacturing Insights analysis indicates that companies that move to the integrated stage of maturity improve revenue capture by 3–5% and lower sales and marketing costs by 7–9%. Moving to the connected stage improves revenue capture 8–10% and lowers costs by 2–4%. These percentages are conservative; we have seen much more dramatic results. However, a manufacturer with €10 million or more in revenue can easily justify the investment.

Using a hypothetical €50 million manufacturer, we can illustrate the impact of these benefits. Assuming a 30% gross margin and sales and marketing expenses of 5% of revenue before the transformation, moving to the integrated stage would yield €800,000 of potential benefit (4% increase in sales at 30% margin and 8% lower sales and marketing expenses). A move to the connected stage would yield another €2.1 million (9% revenue capture at 30% margin and 3% lower costs) for a total payback of nearly €3 million. In the following section, we move beyond the hypothetical and look at a real-world example.

CUSTOMER PROFILE

Tensar International manufactures products for soil reinforcement used in site development in construction projects. The company produces to order and has expanded its revenue base by offering complementary engineering and installation services. The company employs more than 200 people and is based in Blackburn, United Kingdom, with regional offices all over the world, including China.

The company was challenged by a particularly long and complex sales process that begins with engaging the civil engineer attached to a project in order to get Tensar products specified in the plans. The process can take years and involves contact with many individuals working on the project.

Tensar wanted to improve the effectiveness of its sales process by creating a more integrated and automated foundation. This initiative would be enabled by investment in a modern CRM suite, and the company chose Sage CRM for this purpose. The company had three key requirements — a customer database, workflow automation, and content management — as well as requirements for international operations such as multicurrency support.

Tensar doesn't share specific results for individual initiatives, but it reports a host of benefits, including elimination of paper, more effective management control, and improved efficiency. More importantly, the company reports increased sales by virtue of shorter cycles and more opportunities coming into the sales funnel. Overall, the company enjoyed a payback of less than a year on its CRM investment.

ESSENTIAL GUIDANCE

IDC Manufacturing Insights recommends that companies look at transforming their sales and marketing processes to take advantage of growth opportunities and lower costs. Specific steps to transformation include:

- Use the maturity model in this document to perform a self-assessment of your current processes. If you have some automation, evaluate how well integrated it is with other parts of the process.
- Based on this self-assessment, identify the gaps that need to be overcome to get to the next stage of maturity and then beyond. If you are moving to the integrated stage, be sure to consider the external coordination and decision feedback loops that will be necessary to continue along the maturity path.
- Use the business benefits discussed in this document to calculate the tangible savings that can be realized through transformation. Remember that the framework is a generalized guide and that your own circumstances must be taken into consideration. The resulting business case should reflect this specificity.
- Build an executive appropriation business case that focuses on the revenue implications from new business, larger order sizes, and repeat business. Also, include the opportunities in lowering the cost of marketing campaigns, sales staffing, and customer support.
- Underpin the transformation with a modernization of the software used to support the process. Be sure to look for technology partners that have the following capabilities:
 - **Full process coverage.** Support for the full range of sales and marketing activity should be available. This includes event, contact, opportunity, and service management.
 - **Collaboration.** The vendor should have an architecture that allows for easily extending the processes to key selling partners.
 - **Analytics.** The application should include well-integrated reporting and analytics to enable the closed loop management control necessary to drive continuous improvement.
 - **Flexibility.** An application not only should deliver support for key industry processes but also should allow the user to adapt those processes to company-specific circumstances. The software should be able to accommodate these needs with a minimal amount of custom development.

Following these steps and partnering with the right technology vendor can deliver substantial returns and a rapid payback on investment. Savings are magnified by extending the process automation to partners and creating an effective performance management culture. More importantly, the revenue opportunities for manufacturers in recovery will be enhanced through mature sales and marketing processes.

Contact Sage Partner ONESYS to see how CRM can help you.

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