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Better B2B selling

Although collaborative relationships with customers can be complex and time consuming, when they are done well the rewards can be substantial.

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It's a familiar lament: executives at business-to-business (B2B) companies say that their largest customers have never been more demanding.[1] But whereas some companies are simply caving in to price pressure, others are trying to create and capture more value through sales approaches such as enterprise selling,[2] key-account management, or solutions selling.[3] Regardless of the label, each involves forging highly collaborative relationships, with selected customers, that can yield exciting results.

- In the mid-1990s, Alcoa's Wheel and Forged Products division began devoting more energy and attention to developing custom products for several auto manufacturers. The result was more distinctive (and often proprietary) forged aluminum wheels for vehicles such as the Special Edition Jeep Grand Cherokee, Ford Super Duty truck, and GMC Hummer. Eventually, Alcoa extended its collaboration with original-equipment manufacturers (OEMs) beyond the development of new products, to include rollout, marketing, and postsales service. During the past ten years, Alcoa has expanded its share of this market to 35 percent, from 5.
- About six years ago, Sonoco, a packaging supplier, intensified efforts to help the snack food maker Lance determine the ideal packaging for its product lines. One improvement involved the use of flexographic printed packaging film in Lance's single and multiserving Home Pack snacks for brands such as Toastchee and Captain's Wafers. Efforts like these drastically reduced Lance's packaging costs, and the company made Sonoco its "Supplier of the Year" in 2002. In an industry where most players were growing slowly or shrinking, Sonoco generated annual revenue growth of 7 percent and margin growth of 18 percent from 2001 to 2004—thanks in part to this collaboration and others like it.

Clearly then, collaborative selling can yield tailored products (Alcoa's wheels) or bundles of products and services (Sonoco's packaging and conversion). In other cases, collaboration has generated more elaborate, customized products that integrate proprietary intellectual property or expertise to solve a customer's problem. These examples also suggest, however, that intense collaboration is a complex, time-consuming endeavor. Many would-be collaborative sellers fail to master that complexity. In some cases, the buyer and the supplier aren't able to identify unique sources of value. In others, suppliers don't achieve the necessary coordination (across business units, geographies, or functions such as product development, engineering, marketing, and legal affairs) that is vital to collaboration. And some companies find moderately successful efforts so resource intensive that they don't yield a good return. As a result, roughly half of all collaborative sellers enjoy only modest benefits from their efforts, and a quarter actually lose money in those relationships, according to a recent McKinsey survey of more than 200 sales executives at Fortune 1000 companies.

For the leading sellers in our survey, however, collaborative initiatives increased revenues and profits by more than 20 percent, on average. These leaders start with a rich understanding of the customer's economics and engage the appropriate customer personnel (from product developers to purchasing agents) in joint strategy sessions to uncover mutually beneficial opportunities. They also scrutinize internal organizational issues—meticulously choosing collaboration managers, who often come from outside the sales department; thoroughly training account teams in the field; engaging senior executives in targeted ways; and fine-tuning incentives. Finally, the leading companies recognize that collaborative selling is a costly business and approach it with a hard-nosed, investment-oriented mentality by carefully selecting trial customers and by periodically reevaluating relationships, much as pharmaceutical companies stage-gate their R&D investments.

Identifying value

The experience of one large consumer goods company highlights the difficulty of identifying collaborative opportunities that are beneficial for both parties. The company established customer councils that comprised all the salespeople around the world for each of several major customers. Although the councils met regularly, data on customer volume, revenues, prices, and profitability weren't made available to all members. Even when major customers provided an opportunity by seeking global or regional pricing deals, the councils lacked the knowledge and customer relationships to do anything but put out fires with price concessions. Successful collaborators avoid such pitfalls by thoroughly engaging the customer to comprehend its business and learn how to make improvements.

Understand the customer's economics

Contrast the consumer goods company's approach with that of Alcoa or BASF. At Alcoa, teams hold weekly meetings during critical points in the customer's sales cycle and develop strategies based on a deep understanding of its economics. Scrutinizing the value chains of customers is an important starting point. In one well-known case, BASF's efforts to identify new sources of value for its automotive OEM customers ultimately led it to run their paint shops (Exhibit 1).

EXHIBIT 1

More valuable across the board

Value chain of original-equipment manufacturer (OEM)

	R&D	Purchasing, parts sourcing	Assembly	Shipping, warehousing	Marketing, sales	Service
Before collaborative-selling initiative						
BASF's offering for OEM's key activities	N/A	• Supply commodity paints and coatings by the gallon	N/A	N/A	N/A	N/A
Collaborative-selling initiative						
BASF's new offerings for OEM's key activities	• Develop custom paint formula to meet OEM-specific requirements	• Sell paint and coatings as a function of cars painted, not paint used	• Integrate OEM-specific paint blend into coating application process • Manage end-to-end paint shop operations for OEM	N/A	• Provide customer assistance with color, options selection	• Supply custom/touch-up paint to OEM's service center • Sell OEM-specific paint colors in other retail outlets
Added value for OEM	• Supplant OEM's spending on this aspect of R&D • Offer more nuanced views into role of color aesthetics in penetrating target markets	• Cut OEM's raw-materials cost – Reduce paint waste by 20% – Paint more cars with remaining amount	• Eliminate bottleneck caused by painting process • Improve quality through better color matching • Address environmental issues through better handling of materials	N/A	• Build increased loyalty through unique offering • Expand target segments to include customers that may not have previously considered OEM brand	• Capture additional revenue from current customers • Increase customer satisfaction by supporting OEM after-sales activities

Developing economic insight into specific elements of the value chain requires detailed industry knowledge. Frequently, suppliers find that industry specialization, coupled with time on the road, is the most efficient way for their sales teams and relationship managers to gain expertise. There is no substitute for visiting other players in the industry, attending trade shows, and finding out which areas of a customer's operation could, if improved, yield the largest and fastest payoff.

In a best-practice example, one consumer durable-goods manufacturer engages in thorough end-consumer research, including efforts to understand the preferences and buying patterns of shoppers at its important retail customers. The supplier can thus collaborate with customers to conduct long-term category planning, manage changes in the mix of products, tailor marketing campaigns, and improve in-store sales and service execution.

Engage the customer

Armed with this knowledge, sales teams are now ready to engage with customer personnel. They have to perform the difficult task of generating insights into a customer's business that go beyond existing products—and beyond anything the customer would uncover on its own. Joint strategy sessions are frequently the tricky part. Alcoa, for example, creates teams of its own and the customer's personnel (including supply chain experts, operations managers, and R&D engineers who can validate the potential economic impact of collaborative initiatives). The teams meet on the customer's home turf.

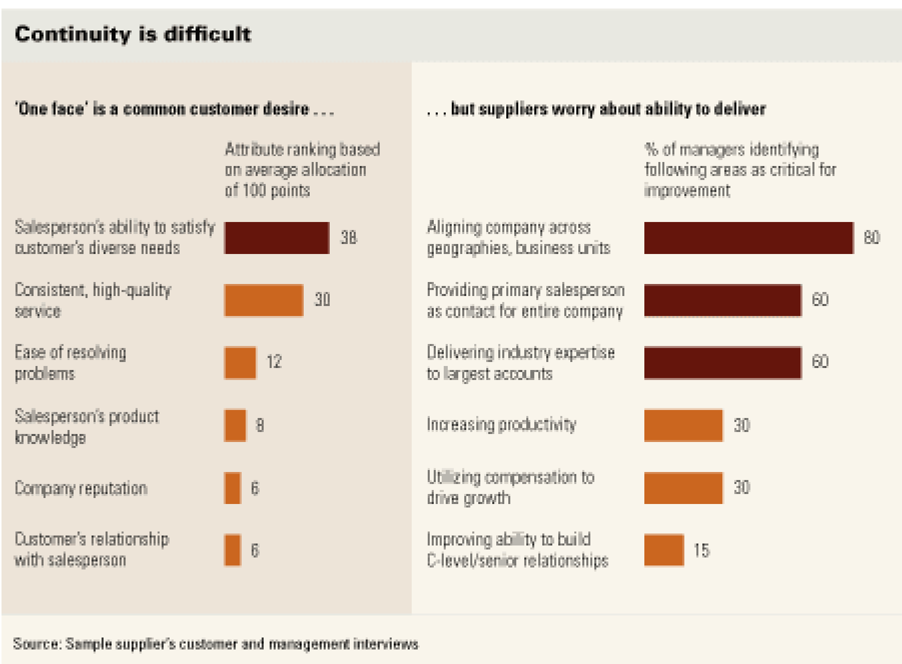
In cases where the supplier and the customer are looking for company-wide opportunities, it is important for teams to include personnel from a number of geographies and business units. At the extreme, customer engagement—and the teams supporting it—will occur at the intersection of several industries at once. For example, in the late 1990s Sealed Air improved upon a proprietary vacuum-packaging process after detailed consultation with poultry processors and grocery retailers. The new solution drove down damage rates and waste materials for packaged products, enabling grocers to boost profits on poultry products by 75 percent, even when prices to the end consumer remain unchanged. This solution, along with other collaborative innovations, contributed to Sealed Air's 24 percent increase in sales since 2000.

Some customers, touting their highly centralized decision-making process and ability to facilitate effective collaboration, question the need for a team approach. In our experience, though, a customer's organization is rarely as centralized as it thinks it is, so the supplier should be explicit when choosing team members. To capture the full potential of a collaborative relationship, a company might need to start by convincing a senior customer leader who deals with consumers and also has functional responsibilities (particularly sales, marketing, or product development) that a diverse team is required.

Organizing for success

Both before and after initial contact with a customer, a supplier's internal organizational issues can create steep barriers to success. Business units—defined by geography or product—focus on their own accountability and frequently have few processes and little patience for collaborative efforts that are good for the whole but may harm their own income statements. The consequences range from inaction to the proverbial accident in the customer's parking lot—that is, when salespeople from different business units of the same supplier bump into each other on sales calls or try to pitch different products or services to the same customer. These actions undermine the "one-face" continuity that customers expect from collaborative relationships (Exhibit 2).

EXHIBIT 2



Consider one large services company's effort to engage a customer with global operations. Things went awry when the customer's business unit leaders retained procurement authority, thereby making it very difficult for the supplier to work collaboratively across business units to find opportunities. After investing 12 months of substantial effort, the supplier captured just 5 percent of the potential opportunity, and the customer characterized the relationship as a "two out of ten."

Effective collaboration depends on a highly skilled customer relationship manager (or collaboration manager) who can break down barriers and align the various players. Well-trained cross-functional teams, assistance from senior management, and incentives that will get everyone working together are also vital for success.

Choose the right relationship manager

While collaboration managers certainly need to be able to handle customers, they must be much more than heavy-hitting salespeople. Because substantial portions of the supplier's total revenues can be affected by a collaboration, for example, candidates must be strong business managers—a trait not necessarily possessed by some high-performing salespeople. In addition, collaboration managers must command the respect of their own senior leaders as well as the customer's. Potential managers should meet these important criteria: do they have personal networks across functions, business units, and regions that will help them marshal resources for a customer on an ad hoc basis? And can they hold strategic business discussions with the relevant senior executives in the customer's organization?

Leading collaborative sellers filled twice as many of these roles with people from outside the sales organization than less effective companies did, according to our research. Some companies relied heavily on external talent. In these cases, it is often wise to hire people to fill the gaps in knowledge about a customer's industry, since such expertise is particularly difficult to develop internally. The goal can be met by recruiting outside experts for roles that will allow them to build internal credibility before taking on full relationship-management responsibilities—and by phasing in the corresponding number of customers targeted for collaborative relationships.

Develop the account team

The collaboration manager won't succeed without a strong supporting cast. Members of a typical account team have deep product knowledge; engineering expertise; pricing skills for speedy, advantageous deal making; negotiating and legal skills to simplify the writing of contracts across business units; and service experience to facilitate postsales support. Ensuring that a team has the necessary pre- and postsales expertise means pulling in a large number of people, often more than 10 and sometimes as many as 50.

To be effective, leaders must be able to work well together and with customers. Many sales managers try to define ideal collaborative processes and communicate them to teams, only to be disappointed by the results. By contrast, one packaging company developed collaborative-selling skills through a "forum and fieldwork" approach. Each account team attended half-day training sessions, or forums, that introduced new skills (such as financial analysis or detailed strategic planning), tools (such as an approach for calculating and communicating the total benefits delivered to a customer by comparing the supplier's offering with the customer's next-best alternative), and processes (such as negotiation tactics to influence the purchaser). The forums also gave teams time to plan how to use these new tools and techniques with their important customers. Following the workshops, the teams had one- to four-week periods of fieldwork. One team began, for example, by assembling an integrated view that included the customer's current competitive situation, its total spending on categories related to the supplier's products and services, and a list of purchasing decision makers. Teams shared the fieldwork results at the next forum, an approach that promoted repetition and reinforcement, linked the teams' new skills with real accounts rather than hypothetical exercises, and created healthy peer pressure.

Involve senior executives

Oral commitments from senior leaders are sometimes the starting point for focusing entire organizations on collaborative efforts. What's more, at a number of successful collaborative sellers, one or more senior leaders oversee key customer relationships.

- At Bosch, each of the top 11 executives is linked to a major OEM customer.
- Alcoa maintains virtual teams for its collaborative customer relationships. The teams operate under the auspices of the business units' senior leaders, who play an active account-management role. Furthermore, in 2003 Alcoa created the role of chief customer officer, a position with oversight of all its business units.
- IBM introduced a separate group, led by a senior executive, that focuses on important customers.
- When Jeff Immelt, the current chairman and CEO of GE, was at GE Plastics, he scheduled weekly calls with each sales executive to review account plans and deal with any problems. He also made a point of visiting one major customer each week. Immelt's involvement sent a signal to customers that they mattered and to internal teams that collaborative efforts were important. It also kept him closely connected with the day-to-day challenges of sales teams and helped remove any barriers to their progress.

A second vital role for senior management is holding people accountable for collaboration goals—a role that the collaboration manager may not have the authority to play. In particular, the senior leadership should push sales teams to establish and meet targets for growth, balance the range of products offered, and ensure smooth transitions through the milestones (such as the introduction of a new product, service, or solution) in a customer relationship that cuts across business units.

Establish incentives

In addition, many profitable collaborations can adversely affect the balance sheets of individual business units, so it is frequently necessary to use internal accounting mechanisms to compensate business units or operating companies. Nokia, for example, uses a detailed transfer-pricing system to ensure that business units and individuals working toward joint customer goals receive the proper recognition. Systems like Nokia's are complicated to implement because of the potential for disagreement about fair transfer-pricing levels, so these crediting mechanisms are most likely to succeed when accompanied by measures to improve understanding and interaction between parts of an organization. Rotating leaders among large account teams, business units, and geographies helps the sales force develop an enterprise-wide perspective, for example. Holding regular cross-team meetings highlights points of friction before they can cause counterproductive behavior.

Such efforts pay off. Our survey of sales executives showed that top-quartile companies were one-and-a-half times more likely to view incentive systems as a core element of their collaborative efforts than were companies delivering stagnant or negative results. In fact, one in four respondents from the poorer performers considered incentives "barely" or "not at all" important to the successful management of a collaborative sales initiative.

Investing wisely

Aligning the organization and identifying unique sources of value require a lot of time, talent, and financial resources. Even if suppliers do everything else right, they run the risk of earning poor returns on collaborative investments if they don't work with the right customers, measure results carefully, and modify their approach accordingly. Common mistakes include paying attention to squeaky wheels rather than investing in relationships based on a solid understanding of relative customer value, continuing investments when they are unlikely to be profitable, and failing to maintain a pipeline of collaborative initiatives.

Although collaborative relationships are not ideal for all large accounts, many suppliers segment their customers and select collaborative targets according to the revenue each account currently generates. A better approach is to consider additional factors—such as potential revenues, profitability, a customer's willingness to partner, the importance of the supplier's products or services to the customer's business, the supplier's ability to serve the customer's needs, and changes in the customer's circumstances (such as rapid expansion, a merger or acquisition, or a shift in competitive dynamics)—that might create collaborative opportunities. It's not unusual for half the customers at the top of a size-based ranking to fall out of a more nuanced segmentation. And even for attractive customers, suppliers should husband scarce resources by clearly delineating different types of transactions. IBM Global Services, for example, builds tailored offerings with selected customers while simultaneously selling standard products to them.

Once collaborative efforts are under way, it's important to track the value created for both sides. A detailed understanding of a relationship's profitability helps a supplier know how to handle customers seeking discounts. And regular progress reviews with individual customers reinforce each relationship's value and create excellent opportunities for suppliers to cross-sell and to expand the scope of the partnership. The focus should be on such measures as sales and profits as well as on activities or intermediate outcomes—such as the number of proposals in the pipeline or the depth of relationships with a customer's senior management—that indicate whether the collaborative effort is on track (Exhibit 3).

EXHIBIT 3

Yardsticks

Metrics to assess success of collaborative-selling effort

Individual customer metrics

Impact on supplier	Impact on customer	Leading indicators
• Profitable growth • Sales cycle velocity • Cost of sales • Price erosion	• Value created for customer • Customer satisfaction	• Number of active proposals in pipeline • Increase in quantity, quality of relationships with decision makers • Customer's allocation of time, resources to relationship

Portfolio metrics

Success of program	Rollout of program
• Aggregate of individual customer metrics, plus distribution of revenues, pocket margins[1] across customers	• Number of customers • Number of customers added/deleted • Number of supplier's FTEs[2]

[1] A pocket margin reflects the varying costs associated with each order filled by a supplier. It is calculated by subtracting from the pocket price any direct product costs and those costs that are incurred specifically to serve an individual account.
[2] Full-time equivalents.

The consumer durable-goods manufacturer we described earlier combines its detailed end-consumer research with predictive, industry-wide economic analyses and input from retailers and wholesale distributors to track the impact of its efforts on each collaborative customer's key consumer segments. Within a year of adopting this approach and acting on its results, the manufacturer's annual net profits increased by more than 10 percent—twice the previous growth rate and significantly higher than the industry average.

A robust set of metrics also helps companies evaluate their investments on an ongoing basis. Given the magnitude of the resources involved, it's important to use stage gating during the sales cycle and to review serious collaborations every 18 to 24 months to determine whether they still make sense. Stage gating involves tracking the development of customer relationships from initial networking to one-off negotiations to full-fledged partnerships. Each stage requires different types and amounts of resources, and customers shouldn't remain at any one stage indefinitely. Without stage gating, collaborative selling can become very expensive; with it, suppliers have a better sense of which relationships to end and when to identify new sources of value for current customers. Collaborative efforts that aren't regularly renewed eventually wither and die.

As large customers get more demanding, B2B companies need not resign themselves to taking a beating on price. Collaborative selling can help companies create and capture more value—but only if they improve their approach to customers, the organization, and collaborative investments. Q

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Notes

1 The challenges B2B companies face include customer consolidation and increasingly sophisticated purchasing organizations. For more on these and other issues, see John M. Abele, William K. Caesar, and Roland H. John, "Rechanneling sales," *The McKinsey Quarterly*, 2003 Number 3, pp. 64–75.

2 In enterprise-selling arrangements, suppliers and selected customers strive to create value through joint innovation (frequently across several business units) at shared points in their business systems. For more on enterprise selling, see John R. DeVincentis and Neil Rackham, "Breadth of a salesman," *The McKinsey Quarterly*, 1998 Number 4, pp. 32–43.

3 See Juliet E. Johansson, Chandru Krishnamurthy, and Henry E. Schlissberg, "Solving the solutions problem," *The McKinsey Quarterly*, 2003 Number 3, pp. 116–25.