



Communiqué

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BY CARL CULLOTTA

Act Now to Capture Profit and Preserve Market Share in a Down Market

THE LATEST "EXPERT" DISCUSSION AND LEADING INDICATORS CONTINUE TO POINT TO AN UNCERTAIN ECONOMY.

ABOUT THIS ISSUE

In this issue of the **Client Communiqué**, we address what manufacturers can do to foster the organizational flexibility needed to sustain profitability and market share in a down market and be positioned to capitalize when the market demand returns.

We also examine why sales, marketing and channel managers need to strike an optimal balance between too little and too much in order to successfully manage critical channel marketing activities and functions. We explore specific examples of the need for balance in market coverage, channel programs and channel compensation.

Finally, we introduce Pat O'Connell Schmakel as a new Principal of Frank Lynn & Associates, Inc.

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Whether it is the price of energy, reduced consumer confidence (and spending) or the upcoming election, most manufacturers in the North

American market must face the reality of at least planning for a down market. How does this fact change your marketing/sales approach? How can you maintain the flexibility to succeed in a down market, yet capitalize when market demand returns? Continuing to focus marketing/sales efforts exclusively on the top line may make it difficult to survive a significant recession (just ask any supplier to the residential construction market). Yet simply cutting costs to sustain profits may result in irreparable harm to your long-term market position.

Frank Lynn & Associates has helped clients manage profitability through industry downturns for over 30 years. Our Integrated Profit Improvement Practice has captured some of the key lessons learned, and today we share some of these with you.

From a go-to-market perspective, there are only a limited number of levers a manufacturer can pull to capture profit, while minimizing any risks to market position, service levels, and revenue. These include;

- Optimizing your spend on marketing programs
- Optimizing the levels and use of channel pricing, discount, & programs
- Managing your sales/marketing organizational structure and costs to align with market objectives
- Boosting the effectiveness of your resource allocation by managing the "hit rate" in the sales process

The first of the levers is the annual spend on marketing programs. The marketing program category can represent over 10% of sales revenue across a wide range of offerings:

- Consumer-focused programs include advertising, couponing, samples, your website, design template, etc.
- Specifier-focused programs include trade advertising, pricing/rebates, samples and demo units, training and certification, design look, etc.
- Channel-focused programs include co-op allowances, market development funds, sampling and demo unit subsidies, training, etc.

Often, when faced with the need to manage total spend, and just based on the sheer number of programs involved, the manufacturer takes the path of

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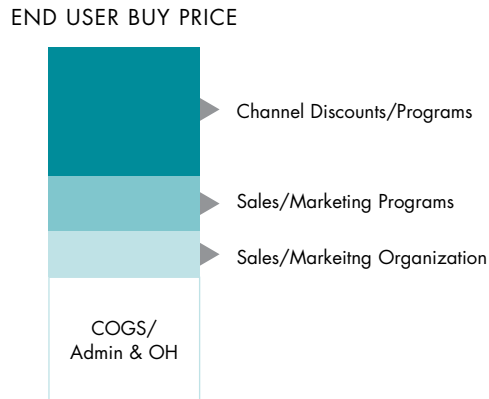
SELF ASSESSMENT SURVEY

We are conducting a self assessment survey about how our readers are managing marketing programs and profitability in a down market. [CLICK HERE](http://www.surveymeter.net/in/survey/survey217/ClientCommuniqueSummer2008.asp) (www.surveymeter.net/in/survey/survey217/ClientCommuniqueSummer2008.asp) to complete our short survey on your perspective of the issues discussed today. And look for survey results in our next Client Communiqué.

Thanks for your participation. If appropriate, we are prepared to offer up to 2 hours of one on one time with either Carl Cullotta or a Senior Consultant to discuss the survey and your key management concerns. Contact Carl to schedule a suitable time.

Sales/Marketing Profit Levers

Financial Levers



Sales Process Lever



least resistance, either cutting spending proportionally across all programs, or eliminating certain program elements altogether. And the evidence these cost reduction decisions are based on is anecdotal in most cases.

Our experience shows that manufacturers that are most effective at profit capture from their program spending can assign an ROI to each program element.

Our experience shows that manufacturers that are most effective at profit capture from their program spending can assign an ROI to each program element. What market constituents are affected by each program? What is the benefit gained by providing the program in the first place? And what risk(s) (if any) are associated with reducing/eliminating the program? When the answers to these questions are quantified, the manufacturer can make the surgical cuts to program spending where appropriate, sustain profitability and assure long term market position.

Measuring program ROI in the face of budget cuts also provides long term benefit – when your budgets return, you will have identified and eliminated those activities and programs with the lowest ROI. You will have freed up resources to “overweight” the most successful programs and/or invest in innovative new areas.

The second lever available to the manufacturer is channel pricing. In a boom market, manufacturers often get “lazy” in their channel pricing practices. A discount or rebate structure may no longer accurately reflect the role or value contribution your channel performs in creating and supporting the sale. This may cause redundancies in your overall go to market cost. And as channel pricing often reflects a number as large as 50% of the manufacturer’s sales revenue, the channel pricing structure can be fertile ground to examine for profit capture.

The successful manufacturer will evaluate the fertile ground of channel pricing, but must do so carefully. All elements of the channel pricing structure (discounts, rebates, commissions, allowances, terms, policies) should be evaluated. Does the payment to the channel reflect the role (and associated cost) that the channel is performing?

Quantifying the answers to these questions can yield the most appropriate restructuring model to both capture profit and defend overall market position.

Does the channel pricing (both the levels and structure) motivate the channel to direct “discretionary” business to you? And has the channel pricing structure kept pace with your strategy? A down market is often an opportune time to clean up an ineffective pricing structure, and yield several points of profit capture in the process.

A third profit capture lever for the manufacturer is marketing and sales structure. Total marketing/sales organization costs typically represent well over 10% of revenues. As manufacturers serve markets in high growth mode, there is a tendency toward organization structure “creep”.

This phenomenon is exhibited in the marketing organization over time through the addition of various products, programs, staffing (such as segment managers), etc. Management’s goal is to be very responsive to a growth market, but this goal often occurs at high cost.

In the sales organization, inefficiency often shows up as an array of different titles (territory reps, application specialists, showroom specialists, regional account managers, etc.) serving the same geographic territory. While the market opportunity may be fully covered, responsibility and accountability is less clearly defined and metrics become murky or simply don’t exist.

A downturn in the market forces reevaluation of the structure. Evaluation of the roles performed by each title in the marketing/sales organization can lead to the most effective cost reduction where such initiatives are necessary. Ask yourself:

What is the value performed by each title in the organization?

- For the manufacturer?
- For what market constituents?

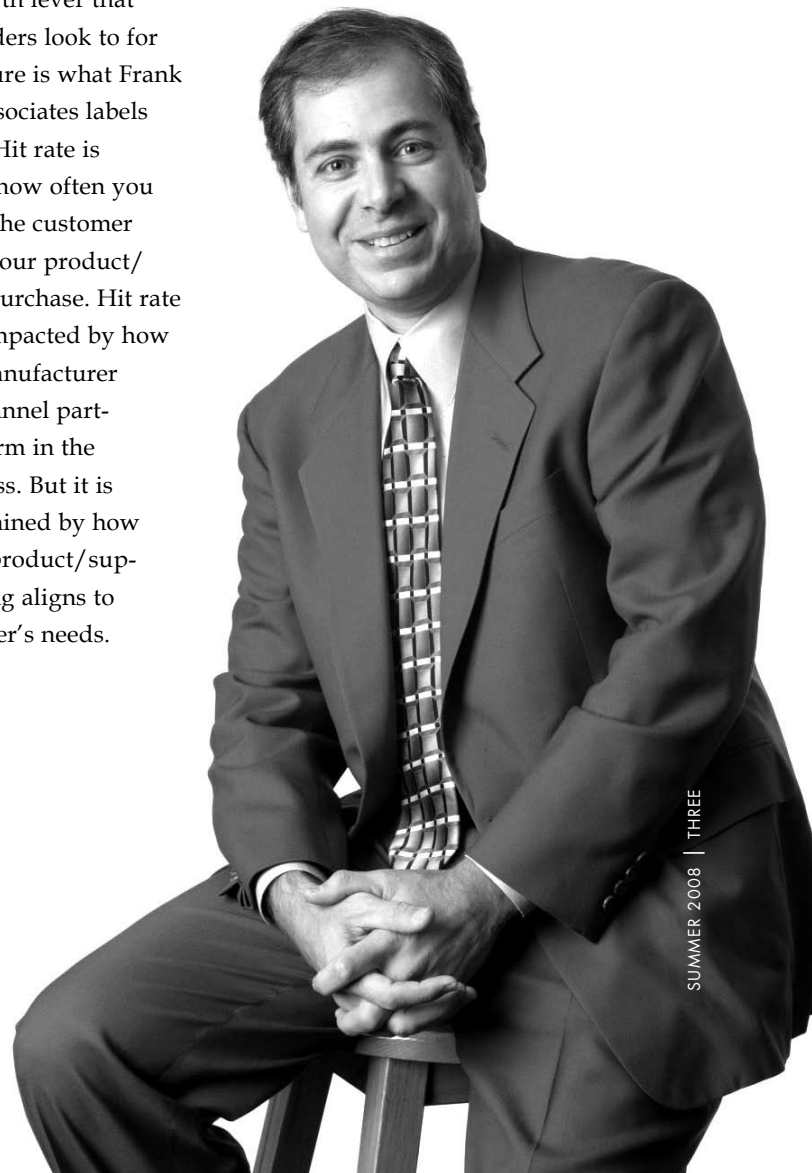
How directly does each title affect revenue generation?

How well defined and actionable are the metrics for each title?

And are these metrics linked to the overall financial performance of the business?

Quantifying the answers to these questions can yield the most appropriate restructuring model to both capture profit and defend overall market position.

The fourth lever that market leaders look to for profit capture is what Frank Lynn & Associates labels “hit rate”. Hit rate is defined as how often you win when the customer considers your product/brand for purchase. Hit rate is clearly impacted by how well the manufacturer (and its channel partners) perform in the sales process. But it is also determined by how well your product/support offering aligns to the customer’s needs.





In boom markets, manufacturers often accept lower hit rates. The goal is to build revenue and market share by getting in front of as many potential customers as possible. However, in a down market, the manufacturer cannot afford a low hit rate. Since there is a significant cost associated with pursuing and losing a sale, a powerful profit capture strategy is to build hit rate.

One of the most effective ways to optimize hit rate is to manage leads against a formal “sales funnel”. The sales funnel requires definition of the key steps in the selling process. What is your interaction with the customer at each stage of this process? How often do you get screened out of an opportunity at each step, and why? Are there specific steps where you do exceptionally well or poorly, and do you have the capability to make changes that increase your “win rate” at each stage? This type of assessment will help reallocate resources to move more leads through the sales process, yielding the desired higher hit rates on sales activities.

Another effective way to gain insight to boost hit rate is to talk to lost customers. Did you lose the sale because you or your channel partners performed poorly in the selling process? If so, what can be done differently to win more often? Or did you lose the sale because it was a poor fit with your product/support offering? If so, how can you recognize this sooner to avoid incurring the expense of pursuing a low probability sale?

SUMMARY

In summary, the uncertain economy will no doubt continue to present a challenge to revenue in the next 18 to 24 months. However, companies who have successfully managed through industry downturns in the past would suggest the urgency to employ profit capture strategies is now:

- *Capturing profit will be critical to delivering short-term financial results*
- *In a slowing market, the industry dynamics provide an opportunity to address issues you would not have the capability/willingness to do so in a boom market*

Frank Lynn & Associates has formalized its Integrated Profit Improvement Practice to help clients identify and implement the profit capture strategies discussed above. Our clients typically realize a return of 6:1 or greater on their investment in such an engagement.

*Take a moment to respond to our **survey** at the following link. [www.surveywriter.net/in/survey/survey217/ClientCommunique Summer 2008.asp](http://www.surveywriter.net/in/survey/survey217/ClientCommunique%20Summer%202008.asp)*

If appropriate, we are prepared to offer up to 2 hours of one on one time with either Carl Cullotta or a Senior Consultant. Contact Carl if you would like to schedule a suitable time.

If you have any questions or comments about this article or would be interested in discussing how Frank Lynn & Associates may audit your spending and structure for profit capture opportunities, please call Carl Cullotta at 312-558-4823, or e-mail at cpc@franklynn.com