

White Paper

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Creating Sustainable, Profitable Growth by Aligning Commercial Excellence Activities with Market Share Limiters

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Commercial excellence teams strive to accelerate profitable growth. And while that growth is sometimes fueled by the tailwind of a boom market, it is more often captured by taking a 'larger share of the pie'... by growing market share. But how do teams grow market share? How do they determine what limits it? How do they select the right actions to grow it? How do they determine if the actions will generate profitable growth?

Commercial Excellence Teams Can Create Sustainable, Profitable Growth Strategies in Four Steps

A commercial excellence team can answer these questions by taking four steps:

1. Analyzing the company's market share and identifying the critical gaps that limit it
2. Vetting the market share "limiters" to ensure it identifies and solves the right problem
3. Identifying and using the right commercial performance drivers to solve the problem
4. Creating a business case to confirm the actions will generate profitable growth

In this white paper, we introduce FL&A's PPH® market share diagnostic framework and describe how commercial excellence teams can use it to evaluate a company's market share position and identify what

limits it. We discuss how a commercial excellence team can (should) vet its initial hypothesis using the 5 Whys Lean problem-solving technique to ensure it defines the right problem. We describe how teams can identify and align the right commercial performance actions to solve the problem and increase the company's market share. And, we discuss how a team can assess each growth opportunity to determine if it will generate profitable growth. We do so in four sections:

1. Section 1: What issues limit a company's market share?
2. Section 2: What is the root cause of the problem?
3. Section 3: What actions should the team take to solve the problem?
4. Section 4: Will the actions generate profitable growth?

At the end of the white paper, we also share some tips and tricks and "no regret" actions.

Section 1: What Issues Limit a Company's Market Share?

The PPH® Market Share Diagnostic Framework and Tool¹

Market share is a robust metric that a company can use to assess its current market position, understand how it performs relative to its competitors, and set and test the reasonableness of its growth objectives. However, it does not answer the questions that help a commercial excellence team design a practical and effective growth strategy. Importantly, a market share value alone does not:

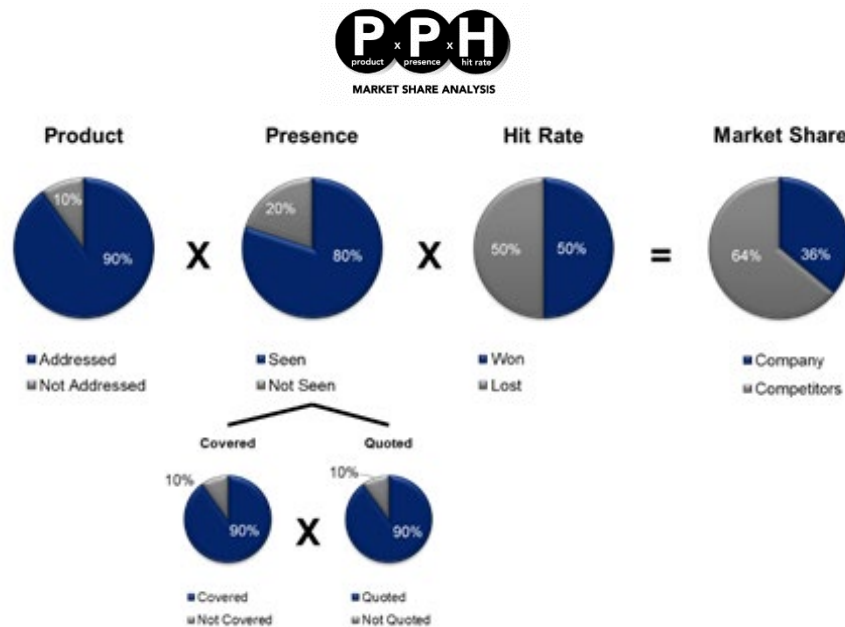
¹ Reference FL&A's article, "FL&A's PPH® Framework: A Diagnostic Tool That Enables the Design of Profitable Growth Strategies," for more information about this framework.

1. Explain how a company captures or “earns” its market share position
2. Identify the issues that limit its market share
3. Provide insight into the actions a company can take to grow its market share
4. Define the stakeholders that should lead the actions
5. Help estimate the time frame over which the company can reasonably expect to realize the results from its actions
6. Help quantify the level of sales the company is likely to generate if it successfully executes the actions

How a Company Captures or “Earns” Its Market Share Position and Determines What Limits It

Three variables determine a company’s market share position... Product, Presence and Hit Rate (PPH®), and the gaps related to each one identify what limits it (see Figure 1).

Figure 1: The PPH® Formula



“**Product**” represents the range of products and services that end users purchase to solve the problems that the company’s offering is designed to address. When end users purchase products, services, or solutions to solve the problem that are outside the scope of the company’s current offering, the company has a

“Product Gap” or “Service Gap” because it does not address 100% of the opportunity. In other words, its addressable market opportunity is less than the total market opportunity (see Figure 2 – next page).

“Presence” is the percentage of the addressable market that the company “sees” through its marketing and sales resources and efforts, and it is a function of two variables:

1. The percentage of the addressable market opportunity the company “covers” with a direct or indirect sales channel; and
2. The percentage of the “covered” market to which its sales channels actively offer its products or services for sale (“quotes”)

When a company does not see an opportunity (cover or quote it), it does not intercept it and, therefore, it cannot sell it. Consequently, it has one or two additional gaps that limit its market share... a “Coverage Gap” and/or a “Quote Gap” (see Figure 2)

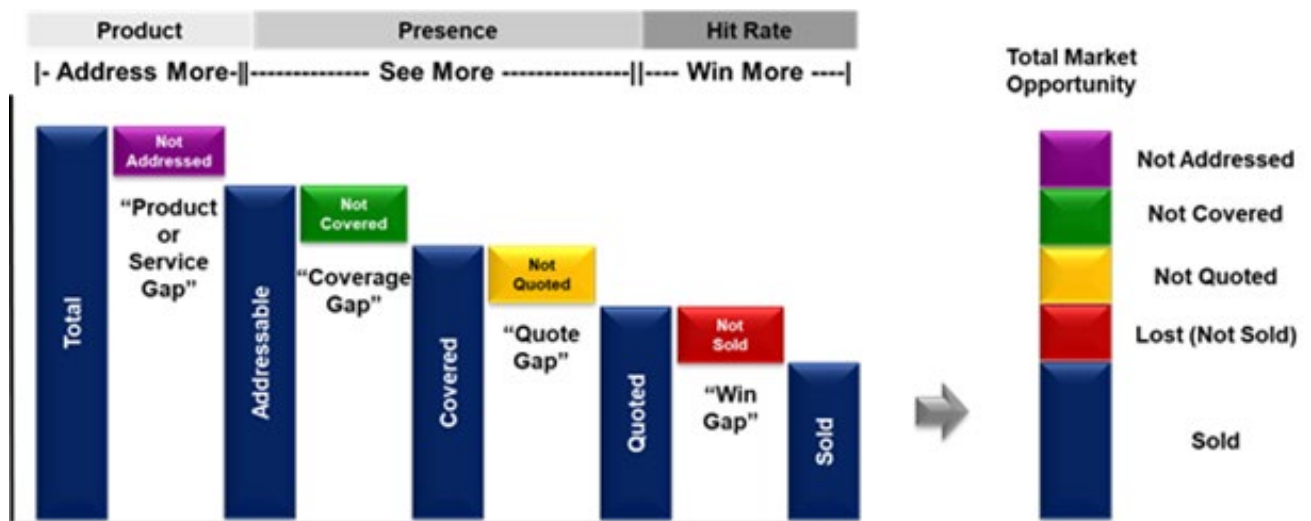
The final element of the PPH® formula is the company’s **“Hit Rate”** or win rate. The hit rate estimates the percentage of time the company wins when end users actively

consider its products or services for purchase. When a company loses an opportunity it addresses and sees, it has another gap that limits its market share... a “Win Gap.” The “Win Gap” is the last variable that limits a company’s market share (see Figure 2).

The PPH® framework enables commercial excellence teams to identify the critical issues that limit a company’s market share (i.e., the problems it must solve), and it categorizes them into three different groups (see Figure 2):

1. “Address More”—offer a wider range of the products or services that end users buy to solve the problem the company’s products or services are designed to address
2. “See More”—increase the sales channels and sales activities to cover more of the addressable opportunity
3. “Win More” – successfully close a higher percentage of the opportunities the company sees

Figure 2: The Market Share “Limiters”



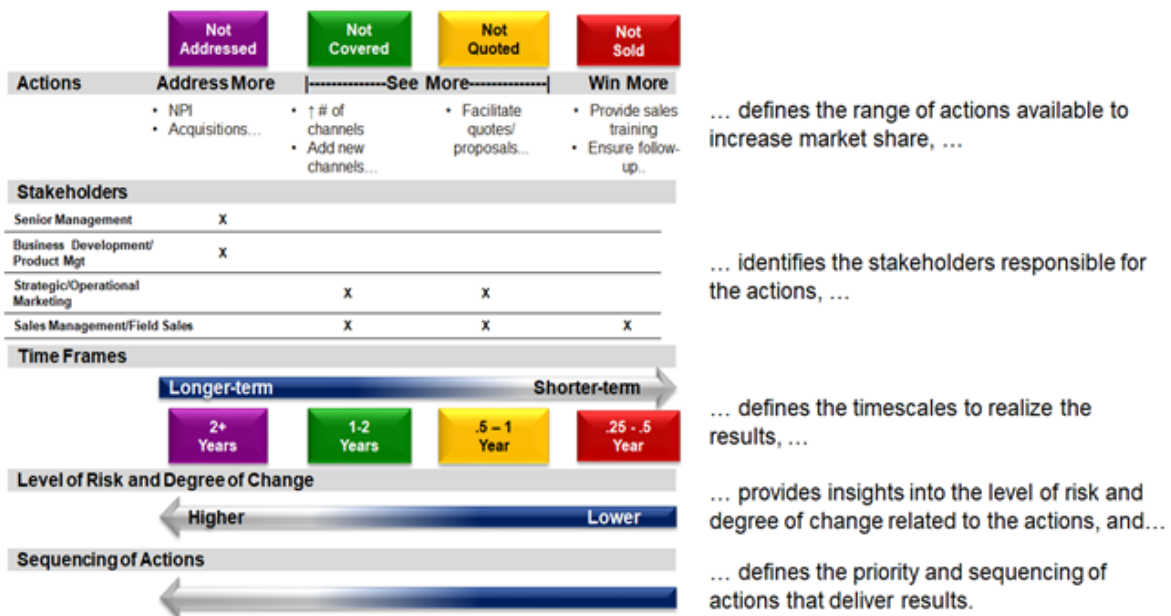
Actions, Stakeholders, Time Frames, Risks and Sequence

The categories of problems the commercial excellence team must solve are important because each one is distinctly different and each one requires different actions to solve them.... different problems, different solutions (see Figure 3). And, each solution typically:

1. Requires different stakeholders to execute the activities
2. Involves different levels of change and risk
3. Involves different time frames to realize the results

Once a commercial excellence team identifies the problem(s) it must solve to increase the company's market share, the PPH® framework enables it to identify, select and sequence the actions it can take to grow so they align with the company's planning horizon.

Figure 3: Key Attributes of the Market Share "Limiters"



Commercial excellence teams can assess the company's market share in a variety of different ways... at the organization level (e.g., enterprise, business unit, product line, application, etc.), at a geographic level (e.g., global, regional, country, state, etc.), at an industry or application level, or any combination of these variables.

Consequently, the team can develop practical and effective growth strategies that align with its particular focus. But first, the team should confirm it defines the right problem before it tries to solve it.

Section 2: What is the Root Cause of the Problem?

The experience of an electrical component manufacturer shows the importance of conducting due diligence. Each year, its commercial excellence team analyzes its market share using PPH®, and it has analyzed it in different geographies, for different products, and for different customer segments. Over time, it has learned that its:

1. "Product Gap" is relatively consistent and minor. Consequently, it does not significantly limit the company's market share.
2. "Coverage Gap" has decreased (improved)... thanks to a new team it created to respond to more customers' requests for proposals (RFPs). Its sales team now quotes more often and, consequently, it "sees more."
3. "Win Gap" has increased (worsened)... it now loses more RFPs than it did before. The decline in its win rate offsets the increase in its quote rate, so its market share has remained flat... frustrating!

Are We Solving the Right Problem? ... Measure Twice, Cut Once

Step 1 is in the books! The team identified the problem it must solve. However, since all companies have time, money, and resource constraints, the commercial excellence team should vet its hypothesis to ensure it identifies the real problem. Like the adage "measure twice, cut once", due diligence helps the team avoid a costly mistake.

What Is The Problem? No, Really?

This is one of the most important, yet often overlooked, steps in the entire process. We often think we know the problem and then rationalize it with anecdotes. But does the data support the story? Does the teams' expertise, experience and insights corroborate it? Has the commercial excellence team vetted its hypothesis so it is confident it is solving the right problem?

Due diligence confirms the root cause of the problem, helps align the team, and ensures all team members are "rowing in the same direction" when it is time to execute the actions. It also helps the team avoid solving a problem that does not exist!

The team can use the '5 Whys' Lean problem-solving technique to test its hypothesis and ensure it identifies the root cause of the market share problem. For the electrical component manufacturer, the commercial excellence team assessed the end users' buying dynamics:

1. Why 1 ... why is our hit rate so low? ... the sales team says our prices are too high
2. Why 2 ... why do they think our prices are too high? ... because our value propositions don't resonate with customers, and they don't see the value of our solution
3. Why 3 ... why don't our value propositions resonate? ... because we are typically playing 'defense' against customer rebuttals rather than describing and selling our own value

4. Why 4 ... why are we playing 'defense' against our competitors? ... because we're not listed as a preferred or equivalent brand on the engineering specifications which strongly influence the contractors' and purchasing teams' decisions
5. Why 5 ... why aren't we specified as a preferred or equivalent brand? ... because we don't call on the engineers who write the specifications... we don't know who they are, we don't spend time meeting with them... and, we're not trained to present to them even if we did see them

Well, That's Not Where We Started ...

So, while the hit rate is low, it is a symptom of a different problem... a coverage issue. Or more specifically, an issue of the quality of the team's coverage. While the company technically "sees" the deal, it does not cover or engage the engineers who write the specifications that the contractors and purchasing teams rely on to buy the best brand for the application. In this situation, if the team did not "peel the onion" through the 5-Whys process, then it would not have uncovered the real problem. And even worse, the team may have been tempted to drop price, decreasing profitability while attempting to solve a problem that does not truly exist!

As best as possible and if feasible, the team should support the 5-Whys analysis with data ... for example: What percentage of the opportunities have a specification? How often is our brand specified? How often do

we win when our brand is specified? How often do we win when our brand is not specified? The data analysis helps test, verify, or refine hypotheses and refute opinions and conventional wisdom. The analysis should combine DATA and CONTEXT, not just one or the other.

Once the team is confident it has identified the root cause of the problem, it should define the actions required to improve the company's performance. While the commercial performance drivers provide a menu of potential actions, the key is to identify the one or ones that solve the problem.

Section 3: What Actions Should the Team Take to Solve the Problem?

By completing Step 2, the team verifies the problem it should solve. So, what does it do now? How does it determine the actions it should take?

The list of commercial performance drivers is quite long (see Table 1 – next page), and the commercial excellence team must select the drivers that solve the root cause of the company's market share limiter(s).

While the 5 Whys approach provides a structured and systematic way to define the root cause of the market share limiter, it also provides insight into the commercial performance drivers that solve it. For some situations, the team can select one or two discreet commercial performance drivers to solve the problem, while for others it may need to use several of them.

Table 1: Commercial Performance Drivers

Commercial Performance Drivers	PPH® Market Share Drivers			
	Address More	See More		Win More
		Cover More	Quote More	
Product/Service Portfolio				
New Product Development Process	•			
Mergers and Acquisition Process				
Brand Strategy	•			
Pricing Strategy	•			•
Sales Strategy				
Customer Segmentation and Targeting	•	•		
Value Proposition	•			•
Sales Process			•	•
Go-to-Market Strategy				
Marketing and Sales Channels (Direct and Indirect)		•	•	•
Principles and Policies		•	•	•
Sales Force Design				
Sales Structure				
Sales Roles and Specialization		•	•	•
Coordination and Control		•	•	•
Reporting Relationships		•	•	•
Alignment of Responsibilities		•	•	
Sales Force Size		•	•	
Territory Alignment		•	•	
Human Capital				
Profiles and Competency Models (Direct and Indirect)		•	•	•
Training		•	•	•
Coaching and Mentoring		•	•	•
Compensation (Direct and Indirect)		•	•	•
Sales Management Processes				
Direct Sales Management		•	•	•
Indirect Sales Channel Management		•	•	•
Technology				
CRM		•	•	•
Process Automation Tools (e.g., CPQ)		•	•	•
Reporting Tools		•	•	•
Other applications...		•	•	•

If, for example, the team concludes that the company has a “Product Gap” because its current offering does not address a meaningful percentage of the market opportunity, then the team can focus on the commercial performance drivers that enable the company to expand its offering. It can evaluate whether it is more effective and efficient to make (through its new product development process) or buy (through an

acquisition) the products or services to close the gap. The team can then develop the plan to execute the appropriate actions.

If the team discovers the company has a coverage gap, then the solution may be relatively straightforward or more involved. If the team learns that the company does not cover a specific geography, industry,

application, customer segment or buying scenario (e.g., new construction versus retrofit or replacement) and it can scale its existing channel strategy to increase its coverage, then the actions may be relatively straightforward. If it must design a new channel strategy to increase its coverage, then it is typically more involved.

For the manufacturer of electrical components, its commercial excellence team learned through its 5-Whys exercise that its field team:

1. Does not know the engineers who write the specifications
2. Does not allocate time to meet with them
3. Is not trained to deliver an appropriate value proposition to them
4. Does not secure specifications for its brand

As a result, the commercial excellence team can execute several activities to enable its sales team to secure specifications:

1. Customer segmentation and targeting ... identify and target the engineers who write the specifications
2. Sales roles and specialization ... define the type of sales resource that should call on the engineers and ensure it has the competency and time to do so
3. Value proposition ... create a compelling and differentiated value proposition that the sales team can use to secure specifications

In this example, the commercial excellence team can concurrently work on these initiatives because it must involve different

team members with different skillsets and expertise to complete them. Once the commercial excellence team selects and agrees on the actions, it should create a regular meeting cadence (e.g., weekly or bi-weekly) to monitor progress and course correct when necessary.

While the root cause of many market share limiters may not require multiple actions, the intent of the example is to show how teams can use the list of commercial performance drivers to ensure they consider all the critical variables required to solve the problem that limits the company's market share. Commercial excellence teams can also use the list of commercial performance drivers to solve problems related to "Quote Gaps" and "Win Gaps."

Section 4: Will the Actions Generate Profitable Growth?

Now that the commercial excellence team has defined the actions required to solve the root cause of the issue that limits the company's market share, it must evaluate whether the actions will generate profitable growth. The type of analysis the team creates depends on the nature of the problem it is trying to solve, the type of investments the company must make, the risk inherent in the investments, and the time over which the team expects to generate results.

If, for example, the company must broaden its offering to increase the proportion of the total opportunity it addresses, then the team will create a "make versus buy" analysis. As part of it, the team will:

1. Estimate the size of the incremental opportunity associated with the new

- product or service
- 2. Evaluate the competitive landscape to assess its ability to compete and win
- 3. Quantify and compare the cost, time and return to develop and introduce a new product versus acquiring a company or product line

For the manufacturer of electrical components, to determine if it is profitable to execute the actions required to secure specifications, then it must:

1. Estimate the costs associated with:
 - a) Analyzing, segmenting, and targeting engineers
 - b) Developing a compelling value proposition
 - c) Creating the position description
 - d) Qualifying, hiring, on-boarding, and training candidates
2. Quantify the return associated with the incremental sales it will generate from the new specifications

While the type of analysis varies for each situation, the commercial excellence team must create a business case analysis to confirm it has confidence that the company will generate a sufficient economic return before it initiates the actions. At this point, the electrical manufacturer's commercial excellence team is ready to solve its 'hit rate' challenge!

Tips and Tricks

The PPH® framework combined with the 5 Whys problem-solving technique, the

commercial performance drivers, and the business case analysis provide a process that enables commercial excellence teams to design practical and effective profitable growth strategies. Our experience using them provides some practical insights:

1. **Solve the big problems...** the 5 Whys exercise often identifies several critical issues rather than just one... **do not tackle too many issues at once**, particularly if one of the actions is complex... pick one to three at most... otherwise the team runs the risk of trying to solve too many problems and not doing any of them well
2. **Define and track an appropriate mix of metrics** (leading, coincident, and lagging measures), set an appropriate cadence to review them (e.g., monthly), **course correct when necessary**... agility is key, and **celebrate victories** along the way
3. **Use the available information and data... succeed or fail quickly, adjust when necessary** ... no data set is ever perfect ... there is always ambiguity... it is better to use directionally correct data and act then it is to get mired in the data and freeze
4. **Resist the urge to jump to the answer** ... take the time to vet the problem and understand why it exists ... this step minimizes time, rework, investments, and... frustration
5. **Involve the critical few cross functional stakeholders** in the analysis and plan design so the team benefits from their expertise, insights and experiences. By involving key stakeholders, the commercial excellence team also fosters collaboration and buy-in

What are Some “No Regret” Actions?

Our work with clients and teams also suggests that commercial excellence teams can benefit from several actions that facilitate the company’s ongoing growth planning process and enable continuous, market-informed refinements:

1. **Create a basic “market map”** so the company can successfully navigate it
 - a. **Quantify the market opportunity and analyze it...** estimate it; break it down by geography, industry, application, customer segment, buying scenarios... so the company knows how best to allocate its resources and cover and serve the elements that offer the greatest return
 - b. **Analyze the company’s market share (PPH®)**... know what limits it and the issues the company should solve to generate the greatest incremental, profitable growth
 - c. **Segment and target key stakeholders** (e.g., end users, key influencers)... at a minimum, analyze key firmographics (size, industry, geographic dispersion)... better yet, evaluate and group stakeholders by salient behaviors, needs and sales potential so the company can design an effective and efficient channel strategy
2. **Define, document and communicate the company’s current channel strategy and rules of engagement...** the company’s direct and indirect sales channels cannot consistently

execute the channel strategy unless they have a common and shared understanding of it

3. **Define and consistently execute the company’s basic sales and channel management processes**
4. **Create and communicate basic analytics...** set a regular cadence with the commercial leaders to review and act on them

Summary

The PPH® framework combined with the 5 Whys technique, the commercial performance drivers, and the financial analysis provide teams with a structured and systematic method to design practical and effective profitable growth strategies. It helps teams identify and isolate the root cause that limits a company’s growth, define the actions that solve them, and confirm the company will generate an acceptable financial return. It substitutes market-based analysis and rigor for intuition and conjecture and provides management teams confidence that its company will realize true success... an increase in its market share and a fair economic return.

About the Authors

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