

Communiqué

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:

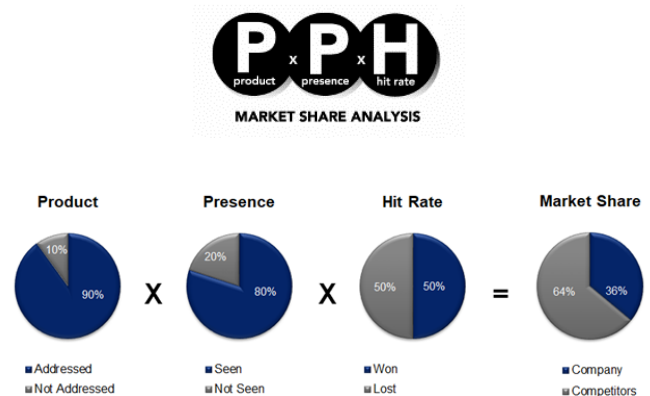
1. Analyzing the company’s market share and identifying the critical gaps that limit it
2. Vetting the market share “limiters” to ensure it identifies and solves the right problem
3. Identifying and using the right commercial performance drivers to solve the problem
4. Creating a business case to confirm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

In this article, we introduce in four sections the frameworks and process that enables a commercial excellence team to take these steps. In a similarly titled companion white paper, we provide additional background, insights, and examples to supplement the content in this article. We also share some tips and tricks and “no regret” actions. (see www.franklynn.com/ to access this article).

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

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

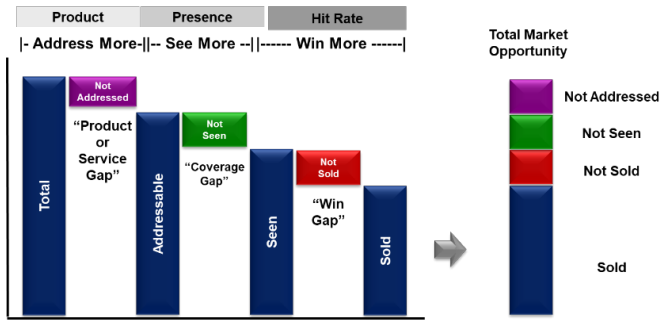


“**Product**” represents the range of products and services that end users purchase to solve the problems that the company’s offering is designed to address. When end users purchase products, services, or solutions to solve this problem that are outside the scope of the company’s current offering, the company has a “Product Gap” or “Service Gap” because it cannot address 100% of the opportunity. In other words, its addressable market opportunity is less than the total market opportunity (see Figure 2).

“**Presence**” is the percentage of the addressable market that the company “sees” through its marketing and sales resources and efforts. When a company does not see an opportunity, it does not intercept it and, therefore, it cannot sell it. Consequently, it has a “Coverage 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).

Figure 2: The Market Share “Limiters”



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:

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

For each of these gaps, commercial excellence teams can draw on a range of commercial performance drivers to address them. 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 provides a practical application of the PPH® model and shows the importance of conducting due diligence. Each year, it 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 has identified the problem it must solve... improve the company’s hit rate. However, since all companies have time, money, and resource constraints, it should vet its hypothesis to ensure it is 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?

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 don’t have a compelling value proposition 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!

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), and the commercial excellence team must select the drivers that solve the root cause of the company’s market share limiter(s).

Table 1: Commercial Performance Drivers

| Commercial Performance Drivers | PPH® Market Share Drivers | | |
|--|---------------------------|----------|----------|
| | Address More | See More | Win 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... | | • | • |

Through the 5-Whys exercise, the electrical component manufacturer determined 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 a compelling value proposition to them or secure specifications for its brand

As a result, the commercial excellence team can execute several activities to enable the 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

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.

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 electrical component manufacturer executes 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 team is ready to solve the company's 'hit rate' challenge!

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.

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About the Authors

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