Why larger wallet-share may not always mean a bigger bottom line

Facts are stubborn", declared Mark Twain, adding in the same breath "statistics are more pliable" And that includes sales statistics, he should have said. Consider this notorious nugget, quoted ad nauseum in sales meetings – "It costs five times more to find a new Customer than to sell more to an existing Customer". From that derives the near-compulsive need to sell more, at any cost, to every key account.

No, it is no one's case that selling more to existing accounts is bad strategy. However, argue Professors James C Anderson and James A Narus in MIT Sloan Management Review ("*Selectively Pursuing More of Your Customer's Business" – April 2003*), if this strategy is not to degenerate into yet another "well-worn platitude", it has to be informed by a more disciplined and finer-grained approach. Worse, mindlessly chasing a higher wallet share could erode profits and compromise marketing strategy

11 Steps to higher share with profits

The professors' 3-year research with what they call 'best practice companies' across US and Europe helped them distill a framework for a profitable pursuit of higher share of their key Customers' business. Here are the 11 steps making up that framework:

1. **Estimate your share with accuracy**

First step to gaining a higher yet profitable share of business in a key account is to estimate correctly – What is the potential business possible in this key account, of which how much are we currently doing? This should be done in respect of every product that we offer to the Customer

How this can help – This can provide more insight, as the authors' research showed. For instance, if we are catering to say, 10 manufacturing plants of a key Customer, then find out what percentage of each plant's purchases are we accounting for. This could vary from being exclusive supplier for one plant with

THE MERCURI VIEW

Traditionally, Salespeople are used to managing opportunities that come their way. Heinz Goldmann, the founder of Mercuri International defined the role of a Salesperson as follows: "*To make a sale happen when there would have been none without him or her".* ***Opportunity creation needs to be part of the Salesperson's job***. This is how the Salesperson creates value for his Customer, himself and his Organization. This is the ability that sustains the salesperson and his profession through the thick and thin of the world's pursuit for value.

To partake in an opportunity already created, comes easy. With that ease come erosions in profits, and a decline in the salespersons ability to create value for Customers. For, Value Selling like a muscle is strengthened with use. If you don't use it, you lose it. And with it, your pipeline disappears, and malignancy sets in.

Champions constantly learn and hone their skills in opportunity creation. And what a better place to do this than with someone who is already buying from you?

Students of Value Selling realize that it takes value to create value. One cannot create profits for his clients by eroding his own bottom line. Further, value recognizes value. Customers who sustainably nurture their bottom line create an ecosystem of value in best of their own interests. To belong in that ecosystem demands consistent credible effort from the Salesperson, in demonstrating value.

zero sales to another. Also, our own costs of supplying could also vary across locations and impact the cost of servicing that Customer. Arriving at this estimate can provide an insightful peek into the volume / value trade off to us as sellers

2. Seek out data

You could adopt one of two approaches in seeking out data for estimating our current share of potential supplies

(i) Direct-query approach – *Ask the Customer directly for the required information*

(ii) Indirect approach to estimating share – *Often using market research or crunching published data or a combination of both*

How this can help – Approached creatively, this can become a potent vehicle for Customer engagement. In one telling example cited by the authors, the company in question offered to share, for free, expensive market size reports on individual products with Customers who contributed "share data"

3. Validate your estimate of Customers' share of business

"Progressive firms find a way to assess the accuracy of their estimates of Customers' share of business" say the authors. This means that they regularly cross check the accuracy of collected data with industry references

How this can help – With accurate share estimates, higher share targeting can be made profitable

4. Create a Customer's share database

It pays to invest in a full-fledged database on Customer's share information. Best practice companies often refer to these as "Customer Profiles" which are reviewed and update every quarter

How this can help – Profiling of Customers in terms of share enjoyed is useful in analyzing impact of market changes such as new product introductions. Data gathering for these profiling exercises also triggers dialogues with Customers leading to product/process improvements

5. Select and pursue a share-growth strategy

Armed with an understanding of how much of each key account's business you are getting and which product/service offerings are most valued by Customers, you can design a strategy to persuade Customers to buy the more profitable offerings which can be sold through more advantageous locations

How this can help – Intimate knowledge of Customers leads to discovery of new ways of doing business which add value or slash costs, the gain of which can be shared with key clients

6. Use account profitability analysis for focused share building

The article gives a fascinating account of an European engineering major that uses account profitability analysis to guide its share building efforts. As the article points out “The company avoids pursuing business that builds revenue but is only marginally profitable … it attempts to attain 100% of a Customer’s business in targeted offering categories while not pursuing others”

How this can help – This approach promotes large gains in profitable segments while leaving the relatively less attractive businesses for competition to fight over. A case in point is the story of a company that chose to leave out the servicing of a new plant put up by its key Customer to the competition while retaining the entire servicing needs of older, existing plants. The logic was that newer plants would require minimum servicing with hardly any demand on their expertise, while the older plants held a distinctly higher service requirement potential

7. **Widen the scope of your market offering to increase share**

Adding expertise or capability to widen scope of your market offering could be another highly potent strategy to increase share in a key account. In the process the seller comes up with a solution that is highly valued by the Customer. This is best illustrated with the story of an European airline’s cargo division cited in the article. This division which was staring at the prospect of being reduced to a cargo-space provider rose to the challenge by getting into end-to-end, supply chain solution to the perishable goods business. By creating and making available an unbroken cold chain from the producer to the point of delivery, the airline discovered a sweet spot. It captured more profitable portions of the transaction chain while adding value and reducing costs to Customers

How this can help – Widening the scope of your market offering can often reposition your company in a larger arena with bigger business shares and higher profits. Use of this strategy enabled the European airline to emerge as the favored supply management provider to ship sea foods and flowers

8. **Broaden collaborative relationships to grow share**

Identify areas where your unique strengths are matched to Customer’s emerging needs to spot opportunities for collaborative relationships through which share can be grown

How this can help – This opens up possibilities of taking a step by step approach to building collaborative relationships with promise of higher business share at every step

9. **Promote multiple single sourcing for profitable growth**

Most large value Customers are uncomfortable with single source arrangements, regardless of how good the relationship is. Understandably so. Business continuity, price disadvantage and possible lack of access to new technologies are among factors that weigh on Customer’s minds. However, under multiple single sourcing the Customer is encouraged to have a network of service/product user-units, where there are several single-sourced units with at least two vendors/sellers across the network. This way each vendor becomes the back up for the other

How this can help – Becoming a single source supplier even to one or two units of a key account, throws open possibilities to picking a higher share of business with better margins by providing distinctive value additions in the selected locations

10. Document the profitability of greater share

"Gaining a greater share of a Customer's business does a supplier very little good when that incremental business comes at the cost of reduced profitability. Shrewd Customers can take advantage of a supplier's lack of understanding of the true costs of serving them" say the authors. Frequently, this is the result of an eager-beaver syndrome that sales is sometimes afflicted with. Discounts, freebie services, programs and systems demanded by Customers are all conceded on the altar of higher volumes. To beat this, best practice companies do a Customer-contribution analysis that includes things like acquisition cost per product group, sales call expenses, logistics and handling cost, credit costs and end of period charge offs. With true profit-value of all Customers known, it gets easier to prioritize where to grow share. And unless these are documented, they do not become actionable insights

How this can help – Exiting or reducing share in low value relationships and correspondingly growing share in potentially profitable relationships becomes possible with this kind of documentation

11. Acquire finer-grained knowledge of Customers to profit from larger wallet share

Focusing limited resources on best avenues for achieving profitable growth is a function of how finely grained is your knowledge of Customers. As the article sums it up – "While gaining detailed knowledge is not easy to do, in an increasingly difficult world of strong competitors and demanding Customers, it is becoming essential"

Mercuri Insight

Customer relationships are best strengthened by getting them to buy as many product or solution categories that one can sell profitably.

Every reason the Customer sees to buy something new from a salesperson, is reason not to buy from the competition.

The only way a salesperson one can build an impenetrable brickwall around his Customers is to keep opening more pathways for the Customer to buy from him.

How this can help – In a rapidly digitizing world, information is accessible to all. It is insights drawn from Customer information and data and actions taken on those insights that can translate into profitable increase in business share that doesn't end up as margin-sapping volume growth

You can read the MIT Sloan Management Review article on "*Selectively Pursuing More of Your Customer's Business"* (*April 2003*) by Professors James C Anderson and James A Narus here

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