A Management Report

7 STEPS to
INCREASE the RETURN on YOUR
BUSINESS DEVELOPMENT INVESTMENT
&
INCREASE REVENUES
THROUGH IMPROVED ANALYSIS and
SALES MANAGEMENT

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INTRODUCTION

According to U.S. Government economic statistics, for most businesses today, the "cost of goods sold" consumes more of the corporate dollar than the "cost of goods manufactured" ***and:*** **is increasing at an alarming rate.**

This situation tends to undermine the prevailing logic in businesses today: heap vast amounts of money into Business Development including advertising, marketing and sales and expect results to be better than they were last year. In fact, most Business Development related budgets increase every year without a comparable increase in profits.

No matter what prior analysis or system of measurement is currently in use, most business executives have little or no confidence that the plans developed & implemented and the budgets spent will enable year-end Business Development objectives to be met. Worst yet, they will have to explain why they were not.

To change this situation, a more cost effective way to reach and sell to prospects has to be found. A way to enable you to increase revenues *and* also reduce the cost of getting new business. Integrated Management Services can help.

The ability of one company to inform a prospect of the benefits of its product or service vis-a-vis its competition has become increasingly complicated, problematic and costly. While Advertising is concerned with image, copy, coverage, reach and retention; Marketing is concerned with how many "leads" are generated either through advertisements or direct mail; Sales is concerned with converting prospects to customers.

In many companies the Business Development activities of the Advertising, Marketing, and Sales organizations may not be satisfactorily orchestrated and, in fact, each may be cancelling out the efforts of the other.

For example, one Fortune 500 company spent significant advertising dollars to generate "leads" only to then use a large telemarketing effort to disqualify those leads from further consideration. This type of wasteful situation is not uncommon.

Integrated Management Services has authored this Management Report because we believe the current wasteful state of business budgeting for Business Development as well as the low confidence most business executives have that their current programs will, in fact, meet year end objectives, to be unacceptable. This document outlines a seven step process aimed at implementing more effective business development programs, enabling you to **produce a significant overall improvement in the "Bottom Line"**.

Information-based Integrated Marketing Programs is a growing field with principles and practices unlike those currently employed by most companies. The concepts discussed in this Management Report, at first glance, might seem similar to those currently in use in your company. They probably are not. The actual methodology is based on the experience gained by Integrated Management Services in the analysis, formulation and implementation of information-based Integrated Marketing Programs for numerous business partners.

Integrated Management Services believes the seven steps outlined below are vital to the successful implementation of an Integrated Marketing Program. Each of these steps are discussed in detail on the following pages.

Seven Steps To Improving Your "Bottom Line" Results:

1. Develop Customer Data Base
2. Define Potential for Products/Services
3. Develop Prospect Data Base
4. Identify High Potential Market Segments
5. Develop Integrated Marketing Program
6. Set Objectives and Implement Integrated Marketing Program
7. Measure, Evaluate and Modify Integrated Marketing Program

STEP 1 - Develop Customer Data Base

The development of a customer data base begins with the collection of available information on current customers. This information should include both identity data (customer number, company name, contact name, address and telephone number) and purchase history (identification of product sold, dollar amount of orders and dollar amount of account). Today, most of this data is available from MIS/EDP organizations and can be provided in a variety of machine-readable forms. The information can also be gathered from internal corporate records such as: Billing, Order Entry, Supplies, and/or Maintenance Files. Companies that have dealer or distributor networks rather than a direct sales force may not have direct end user contact but can often find data on warranty cards. However, it is not necessary to have data on all customer records, as carefully selected samples are adequate for subsequent steps. Integrated Management Services strongly advises supplementing internal data with other useful external data. The simplest and least costly way to do so is by purchasing data already collected by other companies.

General classes of information that can be added to your internal records include:

- **Demographic Data:** Industry Classification, Size
- **Financial Data:** Revenue, Profitability
- **Market Data:** Size of Market (e.g. National, International, or Local)
- **Corporate Affiliation:** Headquarters, Subsidiary, or Branch
- **Organizational Data:** Executive Names, Titles
- **Competitive Data**
- **Miscellaneous:** Computer Equipment (e.g. Mainframes, PC's)

STEP 2 - **Define "Potential" for Products/Services**

The purpose of Step 2 is to determine the business characteristics of high potential accounts. To accomplish this, variables are statistically identified that have a cause and effect relationship to revenue. In so much as this relationship is established, you can begin to gauge the potential to others for your product or service. The general approach recommended to define potential is based on the principle of implied demand. The best indication of need for your product or service has already been established by your current customers. A straight forward multi-variate statistical analysis of the characteristics of your current account base which was gathered in Step 1 will enable you to subdivide customers into smaller groups based on one or more of the following characteristics:

- Report 1: In order of sales
- Report 2: In order of size (employees)
- Report 3: In order of sales per employee
- Report 4: By SIC code in combination with 1,2 and 3
- Report 5: Geographically in combination with 1,2,3 and 4

The insight gained by this step will enable you to cost effectively develop a prospect data base (Step 3) which is essential to the development of an Integrated Marketing Program.

STEP 3 - Develop Prospect Data Base

The objective of Step 3 is to enable you to understand **where** and to **what** extent revenue potential exists in the marketplace for your Product or Service. At this point, it should be reasonably apparent by analyzing the reports generated in Step 2 which market segments hold the most promise for your Product or Service. Remember, the closer a prospect profile is similar to your composite customer profile, the higher that company's potential is for a sale. Once appropriate information sources are selected for your products and services, a data base of prospects can be structured. Determining the best combination of available data sources is a key element of success and is dependent on the nature and maturity of your products or services. Information service companies such as Dun & Bradstreet's Marketing Division or American Business Lists supply data covering the largest part of the market. Often it is advisable to order certain market segments from one of these companies based on their actual market coverage. More specialized lists provided by other vendors (e.g. Martindale-Hubbell Inc.'s Directory for SIC 8111 - Law Firms or Computer Intelligence Corporation for computer sites) can be added as required. Before ordering lists, it may also be helpful to request "counts" for each market segment of interest. This way you will be able to specify exactly how many records you want from each market segment and with what demographic data. Be sure to specify precisely the format your MIS/EDP organization requires to facilitate eventual processing. Merging lists from different vendors can often be more challenging than one might think.

STEP 4 - **Identify High Potential Market Segments**

Each industry group or market segment has characteristics which make it different from the overall market, but which contain customers and prospects who demonstrate similar buying behavior. The identification of distinct market segments enables advertising and marketing personnel to design programs aimed at the particular characteristics or applications of each individual market segment. Three criteria are used to separate the marketplace into distinct segments isolating key industry groups: type of business, revenue opportunity, and probability of sale. Each of these criteria are estimates based on data contained in the customer's demographic file. The type of business is determined by the SIC code which is a numerical classification scheme defined by the U.S. Department of Commerce and explained in the Standard Industrial Classification Manual published by the U.S. Government Printing Office. Revenue opportunity is based on the purchasing history of customers within each segment. Probability of sale is estimated from market penetration statistics. The market penetration into a particular category or segment is the ratio of the number of customers within the category to the number of business establishments having the same definition. For example, if there are 10,000 specific businesses (by sic code) in the United States and 250 of them are current accounts, the market penetration of Law Firms would be 250/10,000 or 2.5%.

The market segmentation begins with combining customers within SIC codes. SIC codes can be combined according to their similarity of average revenue and market penetration of customers only when their industry is similar. For example, Manufacturers of Men's Clothing (SIC 2311) may be combined with Manufacturers of Women's Clothing (SIC 2337) due to their similarity in business function. However, these industries could not be combined with Law Firms (SIC 8111) even if all three had similar buying behavior The resulting data from the segmentation can be described in four categories: Low Revenue, Low Penetration; Low Revenue, High Penetration; High Revenue, Low Penetration; and High Revenue, High Penetration.

The industry segments (SIC codes) can be analyzed as follows:

1. **LOW/LOW** (Low Account Revenue with Low Percent Penetration): Today, virtually no revenue potential exists in the industry segments in this quadrant. Perhaps research to discover revenue opportunities for a new product or service will develop this quadrant to the point where it may become productive. However, it should not be a focus of your past or present Marketing Programs.

2. **LOW/HIGH** (Low Account Revenue with High Percent Penetration): Indicates successful Marketing Programs but with a product or service with little or no utility to accounts in this quadrant. Once again, research could uncover product or service modifications to increase revenue potential but few changes need be made to existing Marketing Programs or to new ones.

3. **HIGH/LOW** (High Account Revenue with Low Percent Penetration): The accounts in this quadrant represent the potential for the future growth of your company. A well conceived product or service is indicated, but with a poorly conceived Marketing Program which has not capitalized on the immense potential of the similar industry segments in this category. A new Marketing Program incorporating what has been, and will be, discussed in this report is strongly advised.

4. **HIGH/HIGH** (High Account Revenue with High Percent Penetration): This quadrant signifies a successful product or service combined with a successful Marketing Program, and few changes need to be made. It should be noted that protecting the revenue base of your accounts clustered in this category should be a high priority.

Next, an estimation of market segment revenue potential is needed. Estimates of revenue potential are derived from statistical models of account potential and probability of sale. Account potential may be thought of as the total amount of revenue a prospect would purchase in a given time frame. This estimate is based on historical customer purchase analysis. The probability of sale is estimated from market penetration and describes analytically relative difficulty of selling to a particular prospect. Both account potential and market penetration affect the revenue potential of a prospect. When combined, these two factors serve as an index which can be used to rank prospects to determine a relative value for your product or service.

To best illustrate this, assume a prospect file containing 10,000 records and $5 million in revenue potential was ordered. Displayed in a useful format called a Market Potential Analysis Report, you can begin to understand the revenue potential of each segment.

This report might indicate that the 1,000 highest potential prospect accounts contain 50% ($2.5 million) of the total revenue potential. The next 4,000 prospect accounts contain an additional 40% ($2.0 million) of the total revenue potential, and the remaining 5,000 prospect accounts contain the remainder of the revenue ($0.5. million).

A second report can now be generated displaying the revenue potential within prospect accounts. The objective is to gauge the level of potential that exists within each prospect account. Again displayed is a useful format, is a **Revenue Potential Analysis Report:**

This report might indicate that the 1,000 highest potential prospects have a sales potential of at least $3,000 and that the next 4,000 ranked prospects have a revenue potential of at least $500. Therefore, the 1,000 highest potential prospects contain 50% of the total revenue potential and have at least $3,000 of revenue potential each. The next 4,000 ranked prospects contain an additional 40% of the revenue potential and have between $500 and $3,000 inrevenue potential each. The remaining 5,000 lowest potential prospects contain less than $500 of revenue potential each.

STEP 5 - Develop Integrated Marketing Program

Once the customer profile and market analysis process is complete and estimates of potential are calculated, strategies can be developed. Analysis and report programs are designed to answer a wide range of questions at a segmented level. These segments can be geographical segments (e.g. sales territories), market segments (e.g. manufacturing), or revenue segments (e.g. all customers billed over $I,OOO/year). Typical strategic questions that arise are:

- In what market should our product be sold?
- What is the relative potential between sales territories?
- Which sales offices should hire additional force?
- What market training should we give our sales people?
- How should we define sales territories?
- Should we incur additional advertising expense?
- What is our product penetration by sales office?
- What should the sales objectives be?
- How much direct mail investment is appropriate?
- Should we participate in trade shows?
- What is the effect of a telephone sales program vs. direct mail program?
- How effective is the dealer/distributor network?

Answers to the above questions are all very dependent upon your specific market and product situation. However, an illustration of one report that is valuable for many businesses is the Market Summary. An example would summarize the market place by geography and market segment.

A typical Market Summary would show the *geographical* segmentation is hierarchical in nature, displaying marketing information from national, regional and city breakdowns. The *market* segmentation is also hierarchical in nature, displaying marketing information from total market, segment and sub-segment breakdowns.

For each element of the Marketing Summary, marketing indicators can be computed, including: Current Revenue, Potential Revenue, Number of Businesses, Number of Customers, Percent of Current Revenue in Market Segment, Percent of Current Revenue in Geographical Segment, Percent of Potential Revenue in Market Segment, Percent of Potential Revenue in Geographical Segment, Percent of Revenues Realized and Penetration.

This presentation of marketing information provides substantial marketing insight into critical planning questions. These insights, taken in concert, enable you to strategically plan how sales potential can be realized by addressing target markets (by industry, size of account and geography), tactics (contact sales, direct mail, telephone selling, advertising, trade shows), promotional themes, target executives by title, etc.

The development of effective Business Development strategies requires the ability to interpret the potentials calculated in the market analysis and to develop strategies and sales tactics that will be effective for your target market.

The strategies that are developed consider the potential revenue of given accounts and the type of sales investments that are justified for each phase of the buying process. Basically, there are three phases in the buying process.

These are:

- To generate an awareness of a product or service;
- To work with potential customers converting their awareness of products or services into interest;
- To work with potential customers converting interest in products or services into a closed sale.

Each of these three phases of development of a sale requires an investment of resources. It is critical to select cost effective tactics to accomplish each phase of the buying process.

Notice that the key element of the selection of appropriate tactics
Is based on the results of the market analysis.

For example, suppose it was determined that a prospect must have a predetermined revenue potential of at least $500 to justify the cost of inclusion in an Integrated Marketing Program, you know that to pursue the lowest potential prospects would be absolutely wasteful.

On the other hand, an aggressive Integrated Marketing Program should be developed for the 1,000 high potential prospects (i.e. those with revenue potential of at least $3,000) which comprise 50% of the market, while a somewhat less aggressive Integrated Marketing Program should be developed for the 4,000 mid-potential prospects (i.e. those with revenue potential between $500 and $3,000) which comprise an additional 40% of the market.

This strategy would provide the greatest opportunity for improving your bottom line results because the cost of the specific Integrated Marketing Programs would be matched to the revenue potential in the high, mid and low market segments.

STEP 6 - Set Objectives & Implement Integrated Marketing Program

Specific, attainable and measurable goals must be set for an Integrated Marketing Program. These goals might be in volume (units) or in profit (dollars), or expressed in a percentage relative to the amount of money to be spent on your Integrated Marketing Program (e.g. if your program investment increases 10%, then revenue from sales should increase more). However, the more specifically the objectives are stated, the better. For example: Match Advertising expenditures proportional to market potential; Spend no more than $1 per piece in the mail cost; Reduce the direct mail expense by 25%; Efficiently set appointments with decision-making executives for at least 30% of the high potential prospect accounts; Spend no more than five sales calls per prospect; Convert at least 50% of the prospects contacted to customers; Reduce the cost of getting an order by 20%; Increase units sold by 250; Increase revenues by 10%.

Importantly, the goals should be coordinated with a time schedule for accomplishment. Generally, a one year time period is adequate, providing appropriate adjustments are made for any abnormal sales cycle.

"Management by Objective is one of the most basic management philosophies, one of the most talked about and one of the most critical to ensure a program's success, yet, inexplicably, one of the most unused."

STEP 7 - Measure, Evaluate, Modify Integrated Marketing Program

A measurement system is essential to the overall success of an Integrated Marketing Program. "Tracking," the process of monitoring program activity and the related **revenue results, is the most effective means to measure the success of an** Integrated Marketing Program. The two basic components of the tracking process are the response rate and lead conversion. Tracking reports should be produced periodically to display response rates by time, territory, industry, size of business, executive title, etc. These reports can be used to compare actual results with the anticipated results (program objectives) for purposes of quantitatively evaluating the success of an Integrated Marketing Program.

Another important approach to evaluating the success of an Integrated Marketing Program is to obtain qualitative information. This information can be used for further fine tuning. One approach to obtain this information is through telephone interviews. Historically, this has been a highly effective means of gaining subjective responses from those exposed to specific marketing programs. Telephone contact should be made with specific questions to facilitate a better understanding of the buying criteria of customers, as well as, and equally important, the non-customers. In the latter, useful information will be gained identifying barriers to a sale which may precipitate the modification of your Integrated Marketing Program.

In interviewing new customers, responses should reaffirm the particular strengths of your products and services. Since some kind of modification is recommended even in the most optimal situation, and since measurement and evaluation go hand-in-hand with any successful marketing program, this step should be regarded as an **essential on-going repetitive** process.

HOW to START - The NEXT STEP

If you feel that the concepts discussed in this report make sense for your company, a convenient way to get started is by taking the next step. The key to an effective implementation plan is a requirements analysis. That is, a review of your current Business Development activities including your current market analysis and sales management processes to determine how to integrate the concepts presented herein into your operation. The result of this analysis would be a detailed implementation schedule including resources, costs and time frames. The implementation plan is highly tailored to your operation and covers the seven project steps identified in this report.

1. **Develop Customer Data Base**
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To insure that a project will be implemented efficiently, each task should be analyzed to determine who should perform the task (Task Assignment), how much will each task cost to be performed (Task Cost) and when each task must be performed to allow for an integrated, timely project implementation (Task Schedule).

SUMMARY

The concepts presented in this report represent a sound investment for your company because they are tested and proven repeatedly in businesses like yours. The cost to design and implement these market analysis and sales management concepts is decreasing due to advances in data processing technology. It costs less to implement these sales management concepts than you might think. On the other hand, your sales costs are increasing and will continue to do so at a faster pace. Labor, postage, transportation and telephone costs will continue to escalate.

Our company, Integrated Management Services, has the capability of providing a professional line of technical services that can assist you in both *planning* and *implementing* all aspects of the market analysis and sales management concepts discussed in this report.

Our services are consistently effective because we have the specialized academic, professional and practical skills to assist in planning and implementing a market analysis and sales management program as described in this report. In addition, these specialized skills take full advantage of the latest concepts in management science and information processing. The objective of our effort is simple: a better return on your sales dollar. An improved cost of sales is achieved through reduced sales force time in prospecting for hot sales leads, reduced travel costs, more opportunities to sell, quicker sales closures and reduced losses to competition. These concepts can more than pay for themselves in relatively short time frames.

In short, our company has the ability to support your market analysis and sales management efforts with technical expertise that may not be cost effective for you to maintain in-house. Our professionals have the advantage of working with many clients that have similar market analysis and sales management problems and, therefore, are able to keep our skill level at the state-of-the-art.

If you feel that you may be able to profit from our experiences, please contact us at info@integratedmgt.com. We are ready to expand upon these market analysis and sales management concepts for improving the return of your Business Development Investment at your convenience.

Information is a critical factor for corporate success. Every company, regardless of size or complexity, needs to develop a process for information gathering and dissemination. Every company, particularly the advertising, marketing and sales organizations within these companies, needs a process to track the business environment: customers, prospects, markets, competition, sales activities, technological developments and regulatory change. The real payoff in information-based Integrated Marketing Programs goes beyond tactical advantage.

Information provides a strategic edge through better, more confident decision-making which leads to a lower cost of getting more revenue, greater profitability, and therefore, improved effectiveness of your investment in business development activities.