



GET CLOSER TO YOUR BEST CUSTOMERS

A SHIFT IN CUSTOMER STRATEGIES IN A TIME OF CRISIS



The extraordinary circumstances of the current economic crisis have changed the operating rules for companies of every size, in every industry. Tactics used in past recessions are less likely to work in a downturn that is more widespread and perhaps more enduring. Today companies face a unique opportunity to reexamine traditional business practices and make much-needed changes – changes that will help them survive the downturn and flourish with the inevitable upturn.

An unsettled economy requires a different approach to managing revenues. The distinction between “good” revenues (those that translate to cash) and “uncertain” revenues (those that may dissolve into delinquencies) becomes critical. Companies must reidentify their most profitable customers and the most effective marketing and sales vehicles for reaching them. As budgets shrink, companies are forced to rethink lean sales and marketing execution. And shifts in customer spending demand a fresh look at the value proposition of current products and services.

Executives across best-run companies are now asking themselves:

- How do I stay close to my customers as their requirements change?
- How can I align my strategy and organization to best support my customers' new needs?
- How do I monitor execution to achieve results in today's economy?

EXECUTIVE SUMMARY

AT A GLANCE

A New Look at Customer Value

In difficult times, customers look for reliable, trustworthy, and cost-effective business partners. Best-run companies are proactive in adjusting their customer relationship philosophy, processes, and systems to stay in tune with the realities of the marketplace. In doing so, they are not only better prepared to weather the near-term storm but also positioned for greater profitability when the tide turns. Specifically, there are three key actions company executives should take now:

- **Stay close to your customers.** Take a new look at your customer base. Their needs have most likely changed. Monitor and understand their requirements so that you can serve them in new and better ways.
- **Seize the opportunity to innovate.** Now adjust your customer-facing strategies, such as for product, pricing, and promotion, to the new reality. Realign and create incentives for your organization accordingly.
- **Monitor your progress.** Ensure that you have the right tools in place to provide frequent pulse checks of your updated strategies. You will need to monitor success and adjust quickly when necessary.

Leadership Makes the Difference in Times of Crisis

One thing is for sure: with every economic crisis comes opportunity. Some companies will go from good to great, and others will just fade away, making room for more innovative competitors. To be among the winners, executives should strongly consider best practices that provide a balanced approach to moving forward by including both cost reductions and smart investments. SAP developed a series of *Executive Insights* that highlight strategies your business can use immediately to run more efficiently and improve the customer experience by helping you:

- Get closer to your best customers (this paper)
- Manage cash more systematically
- Run leaner operations
- Drive compliance activities
- Optimize your human capital
- Protect and nurture your brand
- Build a best-run IT organization
- Gain deeper insight from your business information

Such practices can deliver a true competitive advantage – even in today's economy.

Benchmarking – The Facts of the Matter

The insights presented in this paper are based on decades of experience in helping our customers become best-run businesses. An important tool in these efforts is the understand-

ing gained from measuring and comparing the actual performance of companies across a wide range of sizes and industries.

SAP conducts benchmarking and best-practice studies in many business areas including supply chain, manufacturing, finance, human capital management, shared services, sales and marketing, compliance, and IT. Analyzing the performance of industry leaders offers executives the metrics needed to assess their own company's past successes and guide today's crucial decisions. Consider, for example, these findings revealed by previous benchmarking studies:

- Companies with customer relationship management (CRM) technology have close to 40% higher revenue growth
- Companies where CRM systems are integrated with reporting and analytical tools have 20% more sales representatives achieving quota
- Companies that integrate sales and marketing close 35% more qualified leads annually

For more information about the SAP benchmarking and best-practices program, visit www.sap.com/usa/solutions/benchmarking/index.epx or contact benchmarking@sap.com.

STAY CLOSE TO YOUR CUSTOMERS

FROM DATA TO INSIGHT

Recognizing Change

As market conditions have changed dramatically, so have the circumstances of the individual customers and consumers that make up that market. Suddenly, cash is short and credit is hard to come by. Customers are focusing on value and price, shopping around to get the right business terms. The entire value chain is going lean. Where once customers were willing to spend more to get a better discount, now no one wants extra inventory instead of cash at hand. Customers are buying in smaller increments and paying for just what they need. Noncritical purchases are getting postponed, and only investments with near-term payback get considered. Buy only what you need, pay as you go, and focus on value: these are the new rules of the game.

The immediate challenge for company executives in this new environment is to quickly assess what has changed and plan accordingly. The following insights are needed in short order:

- Do we understand the implications of changing customer demand on our business?
- Who are our best customers? Where are they spending their limited budgets?
- What gaps in our product mix, pricing, and supply must we fill to address this change?
- Which of our brands and products have become more relevant?

Gaining Insight

Gaining insight into customer needs and interpreting demand signals are not as simple as they sound. Companies are awash in customer data but get little insight from it. They know what customers have bought, but not what they are likely to buy in the future. Insights from the field are too slow to reach marketing planners and sales managers to enable timely action.

How then do best-run companies stay close to customers? Successful strategies include the following:

- Develop a single view of customers across product lines, business units, and service divisions with a firm focus on data quality and consistency. Supplement your internal customer data with external sources to get a balanced view.
- Resegment your customer base to identify your most (as well as least) profitable customers. Key data that impacts profitability – such as pricing terms, costs to serve, product mix – as well as payment data should be readily available and consistent, so that it can easily be sliced and diced.
- Proactively reach out and connect with your most profitable customers to understand their near-term plans and concerns.
- Collect and closely monitor the data that serves as forward indicators of demand. Data related to ordering patterns, competitive pricing, and upticks in interest for certain product categories requires special attention.

Hilti

Industry: Industrial manufacturing and components

Summary

Hilti Corporation provides leading-edge fastening technology solutions to the global construction industry. The capturing of complete customer data has driven Hilti to dramatic sales improvements since first implemented in 2005. Prior to using the customer relationship management database, Hilti had very little complete customer information; for example, only 3% of contacts had e-mail addresses and only 16% had phone numbers. Today Hilti has well over 90% completed customer data. Having this comprehensive data allows companies to better segment their customers and communicate with more focused campaigns, and it's helped Hilti better understand its market.

Results with SAP® Software

- Improved customer segmentation for more focused campaigns
- Comprehensive view of customers
- Higher estimate of market opportunity: from US\$4 billion to \$16 billion
- More robust analytics to manage sales efforts

SEIZE THE OPPORTUNITY TO INNOVATE

ADAPT YOUR STRATEGY AND ORGANIZATION

Navigating a downturn requires a shift in customer strategy based on trends in your customer base. It also presents a unique opportunity to retool the organization and prepare for the future.

Three steps to consider:

- Adapt your product, promotion, and pricing strategy to the new realities
- Realign your organization for efficiency and superior execution
- Manage change to match new expectations

No one step on its own can get you out of the doldrums. It takes a coordinated effort across all these areas to navigate to safety.

Adapt Your Product, Promotion, and Pricing

To be relevant and profitable in the new economy, companies must quickly tailor the value proposition of current goods and services to changing customer behavior. Consider these strategies:

- Package separate products and services in a single offering that provides customers a simplified, complete solution. For service bundles, consider fixed-price contracts that eliminate unplanned cost overruns for customers. Target customers that demand greater predictability and that are willing to pay premiums for fixed-price contracts.
- Redesign products and services to be consumed in bite-size chunks without a large up-front investment.
- Offer innovative payment plans such as financing, subscription, or leasing that spread costs over time. This can help overcome objections customers have to making large up-front purchases.

- Launch new, or enhance existing, loyalty programs. These can yield insight into your customer base to help develop better products, services, or promotions.
- Drive innovative promotion strategies to minimize cost and risk to the customer. Witness the bold return-guarantee policies from the auto industry that give special consideration to customers who lose their job after purchasing a car.
- Deliver smarter pricing. Instead of indiscriminate price cuts that jeopardize long-term pricing power, manage price cuts smartly with campaigns that lower pricing for selected product sets and for limited time periods.
- Reexamine sales practices to ensure alignment with new goals for lean operations and lower working capital. For example, measure sales to final customers versus sales to intermediaries to ensure inventories in distribution channels closely match end-customer demand rather than serving as a buffer to smooth quarterly sales goals.

Realign Your Organization

Today's economy presents a unique opportunity to realign sales and marketing organizations to be leaner and more effective. Companies should consider strategies to:

- Recalibrate sales territories and quotas to emphasize the changed environment. Consider a separate sales or task force to go after net-new customers.
- Redefine coverage models to ensure high-cost, high-touch resources are deployed for the right opportunity.

Timely visibility into the status of opportunities and cost-of-sales analysis help you determine when the added cost is justified. Consider what additional sales-related activities the inside-sales rep might take on to offload cycles from field sales. Ensure that inside-sales reps have access to the same customer data, training, and product collateral as the rest of the enterprise.

- Boost sales productivity via CRM capabilities that help eliminate non-value-added activities and enhance collaboration to offset the inevitable reduction in sales staff (see figure on page 6).

Manage Change

The new rules of the game require changes in both organizational structure and behavior. In many cases, sales and marketing organizations must take on tougher challenges: increasing volume, selling smaller increments, convincing more skeptical customers, or exploring new markets. Align your sales incentives to promote the behavior you want. For example, create incentives to drive cross-sell efforts, new customer acquisitions, and margin or volume versus revenues.

But this may not be enough. Managing change of long-standing business practices is not an easy task, especially in sales. Besides incentives, consider the use of training programs to up-skill or retool your organization. To institute change, you need consistent messaging and the right tools to support your people.

KEEP CHECKING IN

TIE STRATEGY TO EXECUTION IN REAL TIME

Accuracy and Availability

In a bad economy, margins of error are small. Companies need to make decisions and evaluate impact quickly. Answers to critical questions such as the following need to be accurate and available in real time:

- Which of our sales initiatives and packages are driving new pipeline?
- Are our marketing and trade promotional programs driving near-term sales?
- Are our redesigned incentives impacting sales behavior and productivity?

Getting accurate answers quickly, however, is easier said than done. In many cases, an inconsistent definition of metrics, heterogeneous data sources, unsynchronized master data, and spreadsheet-based manipulation require a Herculean effort that still delivers questionable results.

Consider the following best practices:

- Provide a repeatable and straightforward process to measure the effectiveness of sales and marketing programs. Make sure you have visibility throughout the entire life cycle of these programs so performance gaps are identified early for corrective action. Ensure faster decision making through configurable business intelligence dashboards and flexible reporting that can quickly flag issues and that enable you to drill into the details when necessary.
- Address data-related issues that affect the quality and speed of decision making. Invest in targeted data management programs related to customer master data synchronization and data quality. Again, visibility throughout the life cycle of marketing and trade promotional programs helps ensure that performance gaps are identified for timely corrective action.

- Keep checking in – especially with your top-tier customers. Beyond customer surveys and management follow-ups, invest in programs that drive ongoing interactions to create a full customer life cycle. Postsale service, loyalty programs, customer support, and channel partners play an important role in customers' use of products and should form an integral part of this life cycle.

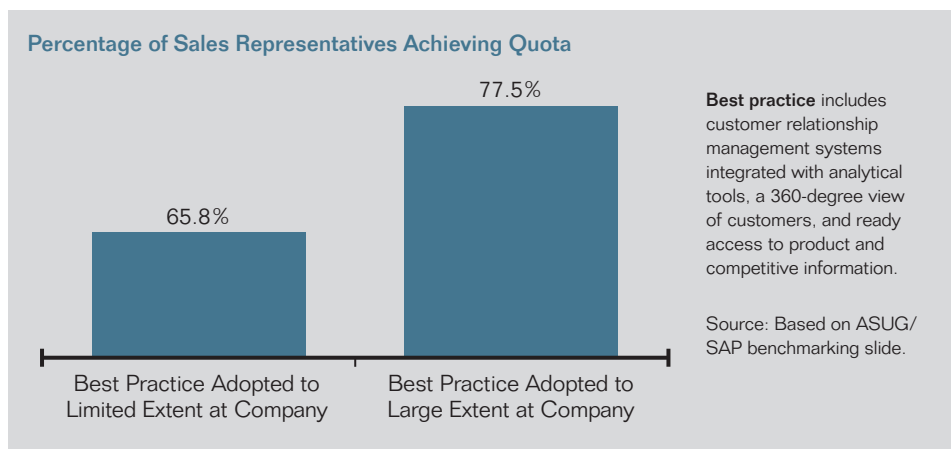


Figure: Percentage of Sales Representatives Achieving Quota

Colgate-Palmolive

Industry: Consumer products

Summary

Colgate-Palmolive Company is a global provider of consumer products that make lives healthier and more enjoyable in more than 200 countries and territories. The company focuses on strong global brands in its core businesses – oral care, personal care, home care, and pet nutrition.

Results with SAP® Software

- Colgate's own analysis of its Mexican sales operations indicated that more than half of its retail customers were buying goods well in advance, which affected Colgate's supply chain. However, by implementing the SAP® solution, Colgate was able to identify and resolve these inefficiencies through better forecasting, leading to a seven-digit annual savings for the unit.
- Today Colgate managers in Mexico have complete visibility into the life cycle of each promotion, allowing them to plan with more accuracy the next time and achieve greater ROI.

BUILD A STRONGER FUTURE

THE ROLE OF TECHNOLOGY

Particularly now, it is imperative that companies rethink the way they segment and support their best customers – and then adjust their operations accordingly. Moreover, these difficult times require that even the most judicious business strategy be carried out with lean efficiency and razor-sharp execution.

Contrary to popular perception, company boards and senior executives are not waiting for the crisis to pass, only to return to business as usual. Many are taking short-term action to reduce sales and marketing costs by eliminating low-value activities, investments, and customers – and directing resources to the most profitable segments.

Some executives are taking a more strategic approach. They recognize that the economic downturn presents an excellent opportunity to invest for the future. Order books aren't bursting at the seams, and the business has spare capacity – so resources are available to reinvent and retool the organization.

Key technology themes addressed as part of the long-term transformation include:

- Provide a common customer data framework. Define a consistent customer hierarchy that connects the customer definition across numerous organizational silos. Seamlessly integrate customer information to give customer-facing personnel access to enterprise-wide views of your customer relationships. Data quality and governance are typically high on the list of agenda items.
- Enable greater process integration across business functions. While companies have traditionally organized around functions, most real work is performed in integrated streams or processes where multiple functions need to cooperate. Business applications that seamlessly connect process flows across multiple functional areas – such as planning, opportunity management, orders or contracts, fulfillment, customer service, and billing – will make these integrated processes more efficient and effective.
- Focus on simplicity and ease of use. Achieving a high degree of user adoption is perhaps the most pressing challenge for any sales and marketing transformation. Capabilities such as an easy-to-use front end, personalization, integration into the back end, and workflow automation have real influence on user adoption.
- Invest in business intelligence and analytics. Any good plan for strategic change needs to be grounded in accurate and timely information about the underlying business – without that, the plan is a stab in the dark. Similarly, ongoing monitoring of new strategies and tactics can only be achieved if the results are easily accessed and analyzed. Once you have a common customer data framework, it is imperative to invest in the tools to analyze that data quickly and effectively.

These longer-term investments are designed to drive greater operational agility with a common view of the customer, greater customer insight, integrated systems, and efficient, har-

monized processes. With these advantages, companies can navigate this turbulent economic storm with greater discipline while positioning themselves to thrive and win when the financial seas fall calm.

About the Authors

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SUPPORT FROM SAP

ASSOCIATED PROCESSES AND SOLUTIONS

SAP supports end-to-end, integrated processes, with built-in industry best practices, including:

- **Optimizing sales and marketing investments:** Align marketing plans with trade promotions and sales execution, as well as demand planning, financials, and claims processing. Analyze customer profitability and promotion effectiveness to inform ongoing strategic planning.
- **Accelerating lead to cash:** Improve margin and revenue potential with multichannel sales execution covering focused account planning, forecasting, campaign and lead generation, collaborative pipeline management, advanced price and margin management, available-to-promise and credit checks, quotes, order capture, and financial settlement.
- **Creating the optimal offer:** Leverage a true 360-degree view of the customer, to better understand and identify profitable customer segments and to create and deliver compelling offers. Target the right customers with the right product or package, at the right time and at the right price.
- **Differentiating through service excellence:** Reduce service costs and

increase customer satisfaction and retention by resolving customer problems at first contact. Help transform the service operation from a cost center to a profit center.

These processes are supported by a variety of solutions, including these:

- The **SAP® Customer Relationship Management application** is designed to help companies manage and leverage their customer information for optimal customer interactions with sales, marketing, and service functionalities.
- The **SAP Price and Margin Management application by Vendavo** is an enterprise-class application that can help companies significantly increase profitability by driving improvements in average prices at every stage of the pricing process for better pricing decisions on every deal.
- **SAP BusinessObjects™ solutions** are designed to help companies take widespread data and create relevant information that enables people to better collaborate in teams and businesses to better collaborate in networks.

Executive Insights from the Chief Value Office

SAP is committed to delivering value to our customers. With decades of experience working with thousands of CXOs worldwide, across all industries and lines of business, we have captured insights based on the best practices of top performers and the latest market trends. We have developed actionable, value-based recommendations to help companies chart their journey into the future. We are pleased to share our point of view in the *SAP Executive Insights* series.

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