Transforming **sales and service**

Incumbents can serve the whole market—without getting stuck in the middle.

**Thomas Baumgartner,
Roland H. John, and Tomas Nauclér**

For business-to-business (B2B) suppliers, the traditional competitive advantages, based on superior products and relationships, are under pressure. Purchasing organizations are getting more sophisticated, low-cost competitors from China and India are becoming increasingly prevalent, and innovations are being imitated more rapidly.[1] On the other hand, a company's go-to-market model—including sales, sales support, and service—is a powerful factor in the purchasing decisions of many customers (Exhibit 1, on the next spread). Although many B2B suppliers have neglected this model, it holds the potential for significant competitive differentiation.

Developing a winning go-to-market model isn't easy for incumbent suppliers, because few are well positioned to provide what demanding customers want: simple, low-cost support for some needs *and* deep knowledge and collaboration for others.[2] The basic transaction costs of suppliers are too high for them to compete with the no-frills specialists—for instance, Chi Mei in chemicals and High Tech Computer (HTC) in technology. And they don't have enough industry-specific "solutions" expertise to compete

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[1] For more on these challenges, see John M. Abele, William K. Caesar, and Roland H. John, "Rechanneling sales," *The McKinsey Quarterly*, 2003 Number 3, pp. 64–75 (www.mckinseyquarterly.com/links/19498).

[2] For more on collaborative selling, see Maryanne Q. Hancock, Roland H. John, and Philip J. Wojcik, "Better B2B selling," *The McKinsey Quarterly*, Web exclusive, June 2005 (www.mckinseyquarterly.com/links/19453).

Article at a glance

Sales and service interactions have become increasingly important sources of competitive differentiation for many entrenched suppliers.

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But incumbents often get stuck in the middle between low-cost competitors and high-end ones that provide distinctive service and sales support.

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Suppliers should rethink their approach to sales and service by segmenting customers according to their interaction requirements, building a "lean backbone" to meet shared needs, and establishing standard, affordable, and high-touch overlays to satisfy more exacting demands.

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Transforming the sales and service process is a major challenge that requires careful sequencing, focused skill building, and the enforcement of new forms of accountability.

with businesses (such as GE Plastics and IBM Global Services) that are setting new standards for value-added sales and service.

This "stuck-in-the-middle" scenario is playing out across a wide range of industries, from advanced materials and chemicals to information technology and tele-communications. It can leave companies vulnerable to attack from both sides. More than one global supplier has recently lost a substantial share of its revenue both to Asian attackers with far lower costs and to genuine solutions specialists offering faster, more sophisticated service.

If incumbents had the luxury of choosing to sell in just one end of the market, the answer to these difficulties might be simple. But focusing in this way means giving up economies of scale and scope, and there aren't enough high-end customers to support a mass retreat to the stratosphere. Suppliers must instead continue serving the whole market. But how? Not by adding Band-Aid-like technical sales teams with limited competence in delivering solutions or new transactional channels, which often create cost and complexity problems and sometimes even reduce customer satisfaction. What's needed is a clean-sheet redesign that takes another look at what customers want from their sales and service interactions and at the organizational structure needed to provide that kind of support efficiently and effectively.

Rethinking the approach

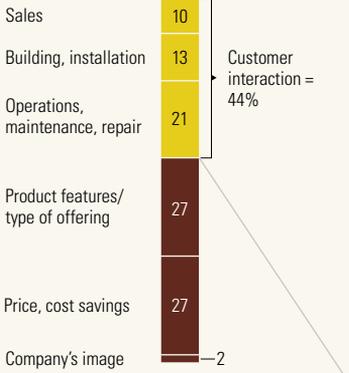More specifically, to cut costs and enhance the customer experience, companies should take three steps:

• Identify the company's full range of sales and service situations, from simple transactions to complex consulting arrangements

• Build a high-quality, low-cost platform of sales support and service processes for interactions that cut across all customers; this "lean backbone" typically encompasses efforts to supply customers with

EXHIBIT 1

The quality of interaction counts

Enterprise telecom products/services,[1] % of contribution to purchase decision

Factors affecting decision to purchase

Factor	Value
Sales	10
Building, installation	13
Operations, maintenance, repair	21
Product features/type of offering	27
Price, cost savings	27
Company's image	2

Customer interaction = 44%

Customer interaction process

Sales	Building, installation	Operations
• Identifiable contact person • Speed of issuing offer • Competence in negotiating • Speed of response • Professionalism, fairness in negotiations • Quality of information • Transparency of order status	• Adherence to project plan • Transparency of project plan • Translation of customer needs into project plan • Quality of project management	• Accuracy of invoice • Clarity of invoice • Speed of repairs • Identifiable contact person • Competence of help desk

[1] Corporate networks, desktop services, integrated voice-data networks, Internet access, landline voice services.
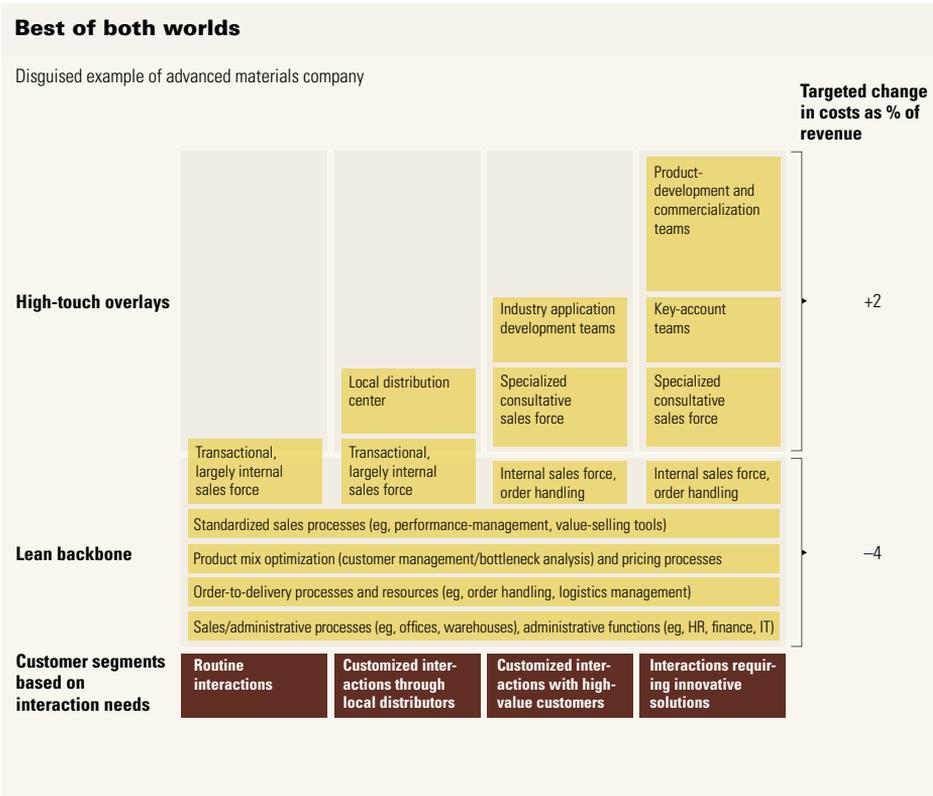Source: Customer interviews and focus groups; McKinsey analysis

information as well as order entry, fulfillment, training, and after-sales service

• Develop affordable standard modules (or high-touch overlays) for situations where customers value additional sales or service support enough to cover its cost; these modules might include teams of industry experts, application-development teams, and "hunting" teams to focus on acquiring new customers

Ambitious as this approach may seem, it's already happening. As Dell's corporate and government business has grown to represent roughly three-fourths of the company's sales, for example, it has retained a lean backbone based on Internet and telesales transactions and service while providing value-added services for major buyers.

More recently, a few large sales- and service-oriented companies in Asia, Europe, and North America have moved out from the middle by redesigning their go-to-market approaches. One advanced-materials manufacturer that was losing market share to low-end specialists and not capturing the full growth potential of the high end identified four core sales and service situations. To support all four of them, the company then built a backbone that includes order handling, billing, invoicing, and logistics management. Finally, it developed standardized overlays (such as consultative sales, joint

EXHIBIT 2

Best of both worlds

Disguised example of advanced materials company

Targeted change
in costs as % of
revenue

	Routine interactions	Customized interactions through local distributors	Customized interactions with high-value customers	Interactions requiring innovative solutions	
High-touch overlays				Product-development and commercialization teams	
			Industry application development teams	Key-account teams	+2
		Local distribution center	Specialized consultative sales force	Specialized consultative sales force	
	Transactional, largely internal sales force	Transactional, largely internal sales force	Internal sales force, order handling	Internal sales force, order handling	
Lean backbone	Standardized sales processes (eg, performance-management, value-selling tools)				
	Product mix optimization (customer management/bottleneck analysis) and pricing processes				−4
	Order-to-delivery processes and resources (eg, order handling, logistics management)				
	Sales/administrative processes (eg, offices, warehouses), administrative functions (eg, HR, finance, IT)				
Customer segments based on interaction needs	Routine interactions	Customized interactions through local distributors	Customized interactions with high-value customers	Interactions requiring innovative solutions	

R&D, and application-development teams) that it combines in various ways
to provide distinctive support in each sales and service interaction (Exhibit 2).
Together, these efforts helped the company to cut its selling, general, and
administrative (SG&A) costs by 20 percent and to triple the growth rate of
its new products.

Focusing on sales and service needs

The go-to-market organizations of B2B suppliers rarely create profiles
of different sales and service interactions, analyze how frequently they
take place, or understand what makes the difference between competitive
success and failure in each. Many companies therefore devote too many
sales and service resources to simple transactions and too few to complex
ones where the key differentiator might be the deep domain expertise of,
say, a technical sales team that really knows how cutting-edge products
work. Companies should thus begin rethinking their approach by deciding
exactly what type and quality of sales and service interaction they must
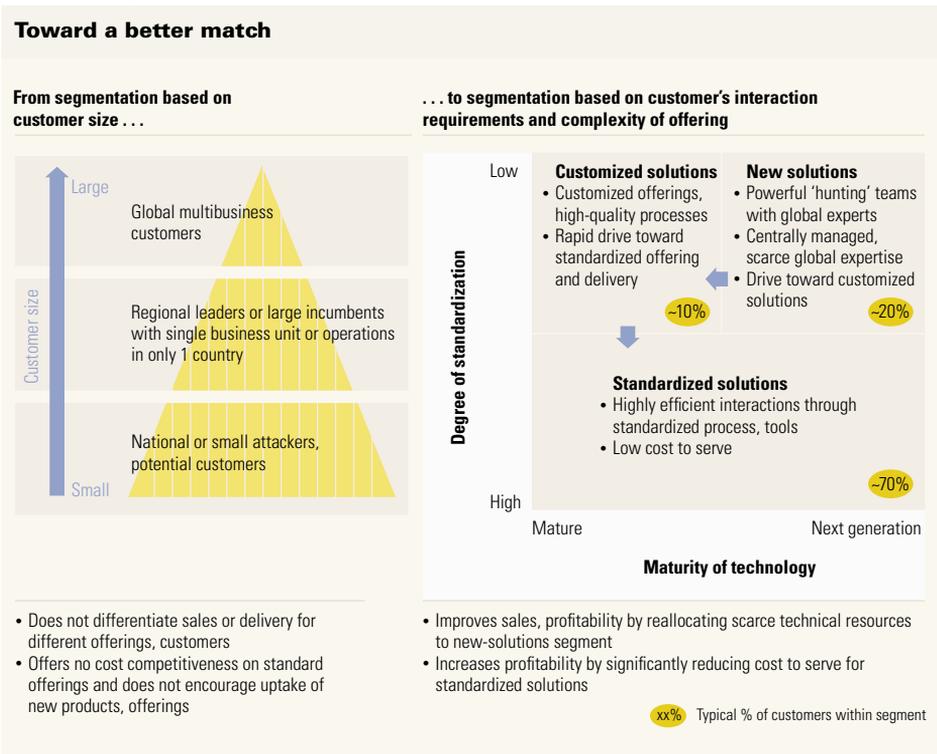provide to their various customers.

To understand the difference that focusing on sales and service interactions
can make, consider the case of a global network components provider
that until recently was stuck in the middle between low-cost competitors

from Asia and companies that won high-end customers by offering new solutions and stronger field expertise. This company had failed to differentiate between the various types of interactions buyers needed, instead assigning to each of them an account manager plus technical sales and service personnel.

Analysis revealed that 70 percent of this company's customer interactions, across buyers of all sizes, were relatively simple—involving the provision and untailored installation and configuration of standard products such as routers and switches. An additional 10 percent of its interactions involved mature but complex networks requiring some customization. Only 20 percent of the time did a nascent technology call for the development of truly new solutions, such as next-generation all-Internet-protocol networks (Exhibit 3).

Matching the needs and service levels of customers more effectively helped the company to reduce its overall go-to-market costs by nearly 20 percent. By concentrating its expertise on the much smaller number of interactions that truly require special know-how, it also improved the quality of its customization work and speeded up the development of new solutions. The company now manages their development centrally and transforms them

EXHIBIT 3

Toward a better match

From segmentation based on customer size . . .

. . . to segmentation based on customer's interaction requirements and complexity of offering

Customer size

Large

Global multibusiness customers

Regional leaders or large incumbents with single business unit or operations in only 1 country

National or small attackers, potential customers

Small

Degree of standardization

Low

Customized solutions
• Customized offerings, high-quality processes
• Rapid drive toward standardized offering and delivery

~10%

New solutions
• Powerful 'hunting' teams with global experts
• Centrally managed, scarce global expertise
• Drive toward customized solutions

~20%

Standardized solutions
• Highly efficient interactions through standardized process, tools
• Low cost to serve

~70%

High

Mature

Next generation

Maturity of technology

• Does not differentiate sales or delivery for different offerings, customers
• Offers no cost competitiveness on standard offerings and does not encourage uptake of new products, offerings

• Improves sales, profitability by reallocating scarce technical resources to new-solutions segment
• Increases profitability by significantly reducing cost to serve for standardized solutions

xx% Typical % of customers within segment

as quickly as possible into standard packages suitable for large numbers of customers. It does so, in part, by consolidating ideas for new solutions that arise in different geographies and by centrally coordinating their design and development.

Boosting service quality and reducing costs with a lean backbone

Whenever a company profiles its various sales and service interactions, it will recognize possibilities for standardization. These typically include transactional interactions (such as order entry, processing, and tracking), the provision of product information, and simple customer service (including basic training and after-sales support). Companies should strive to carry out these interactions in a highly cost-effective way and to conduct them consistently, so that customers making any type of purchase have the same experience executing transactions, obtaining information, and receiving basic service.

This approach typically involves centralizing many of these activities and then adopting a lean philosophy that emphasizes the elimination of waste and rework, the standardization of processes, and continual improvement. The resulting sales and service delivery system contrasts markedly with the norm at many companies: operating in a more ad hoc way, with each business, segment, and channel often having its own sales and service infrastructure.

To understand the power of a lean backbone, consider the experience of a major telecommunications operator that couldn't satisfy the desire of its customers for an accurate, efficient transaction system. Their expectations had been raised by promises of one-stop service from multidisciplinary teams that were to handle everything from ordering and changing service to billing issues, service interruptions, and customer complaints. But the complex structure of the multi-disciplinary teams undermined their effectiveness, particularly compared with the service offered by focused competitors that provided only data, network, or voice support. The teams were also extremely expensive and became more so over time as they sought to compensate for breakdowns by providing higher and higher levels of service.

*Companies that profile their sales and service interactions will see possibilities for **standardization***

The solution was to create a lean backbone that met the customers' interaction needs more cost effectively. For starters, the company separated all of its routine and off-line customer care efforts from its live, high-

touch interactions. Next, it standardized work processes and the way it captured information, thus allowing itself to organize the off-line efforts into more efficient regional and national "transaction factories" that created economies of scale and improved the company's execution. It then encouraged customers to migrate routine work and inquiries to electronic channels, reserving live interactions for the resolution of complex problems. (The multidisciplinary teams, relieved of transactional responsibilities, became a high-touch overlay for select customer interactions.) These changes not only cut the company's customer care costs by 25 percent, through the consolidation of 14 customer care centers into 7, but also improved response times and boosted satisfaction.

It's not unusual for a consistent, heavily automated lean backbone to boost the quality of a company's customer interactions and to reduce their costs by executing transactions quickly and flawlessly the first time around. A utility that standardized its call-center and customer service processes and its online channels raised its customer satisfaction scores to 85 percent, from 70, for example, while costs in the affected areas fell by 40 percent.

Adding affordable high-touch overlays

In some situations, competitive differentiation demands truly distinctive sales or service. A key-account team that includes product-development experts might be needed to close deals involving new products. Or a rapid-response technical-service team could be essential for customers using the supplier's products in mission-critical applications.

A lot of these high-touch situations share enough elements to let companies address them in a standardized fashion. Unfortunately, many companies do anything but. Instead, they allocate sales and service resources in an imprecise, decentralized way, with each business, segment, or channel manager establishing the teams he or she needs. These companies squander scale economies, duplicate efforts, and leave the door open for frontline managers to create uneconomic customer service models. The better approach is to establish standard overlay configurations that define what is and isn't included in key-account, application-development, or technical-service teams. Local decision makers should then select the best overlay for their particular situation.

The development of affordable, consistent overlays calls for a disciplined, investment-oriented approach, with clear cost guidelines and strict approval rules. For sales overlays, the big challenge is determining whether a higher-touch effort—say, the use of a key-account team—will justify its cost by increasing the likelihood of closing deals, engendering loyalty, or

winning preferential treatment. In after-sales service, the questions are whether customers will pay for the higher service level the overlay provides and how to ensure that the right customers are using it. The network components provider described previously, for instance, requires the global sales and marketing manager to approve the deployment of costly solutions-development teams.

One IT hardware and software producer used overlays to streamline a sales approach that involved serving six segments through ten distinct channels, including four types of sales teams and two types of external partners as well as retail, online, and telesales channels. The resulting complexity made it difficult for the company to focus its salespeople on the right opportunities, to complete simple processes (such as supplying price quotes or responding to customer bids) quickly, and to provide competitive high-end solutions. In addition, the company operated at a significant cost disadvantage to most of its competitors.
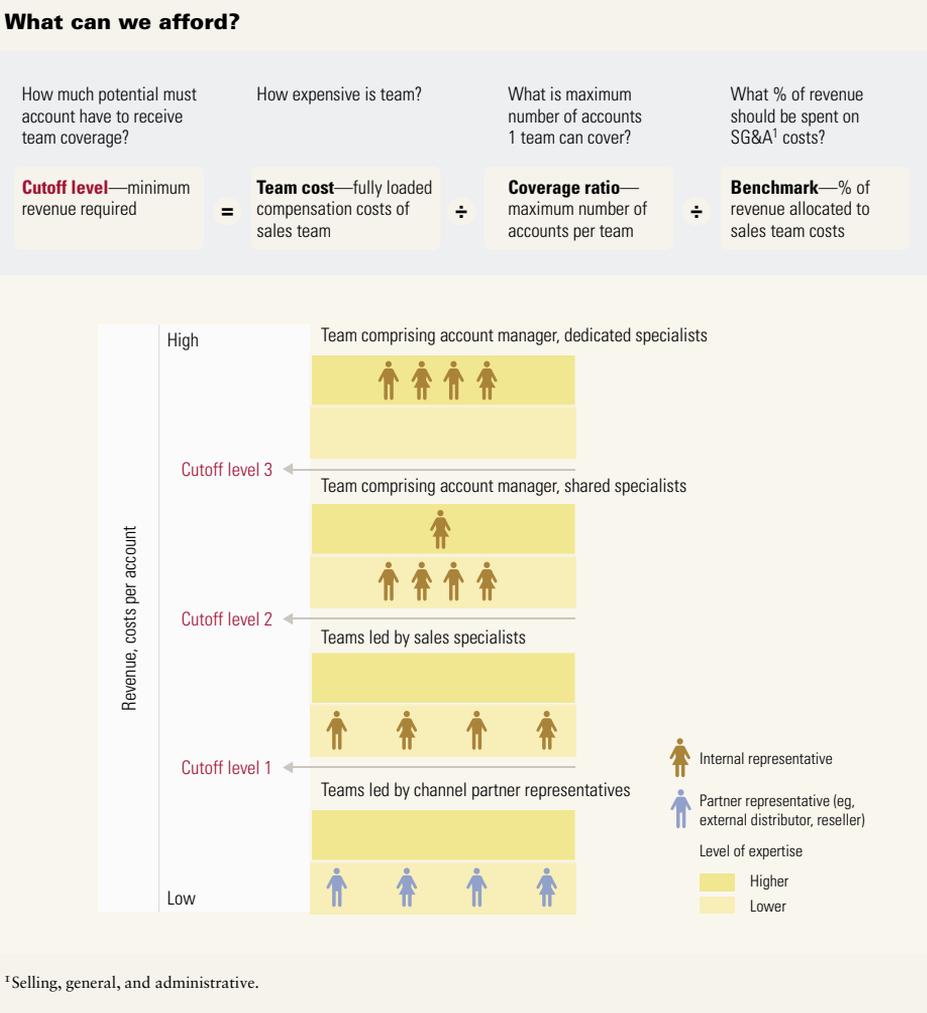
Gaining control over its channels meant building a lean backbone comprising uniform Web and telesales operations and then augmenting it with overlays that met rigorous affordability guidelines. Developing these guidelines is always a highly industry- and company-specific process that typically involves best-practice benchmarking and a careful analysis of sales team costs (Exhibit 4). Effective guidelines help differentiate between the overlays customers with the most sophisticated needs receive and those for high-volume customers. Clear guidelines also show what overlays customer segments within each of these broad groups should receive. The technology company, for example, provided its most demanding customers with support from permanent teams led by senior account managers. It then assigned to the next tier of high-value customers sales representatives who could quickly mobilize presale support and product or service specialists. High-volume customers, on the other hand, relied heavily on the lean backbone (often supplemented by a personalized purchasing Web site). But some received additional support from channel partners, others were assigned remote sales and support specialists, and the most valuable got face-to-face support that helped iron out presale details.

>>> *How do you discover if customers prefer high value over low prices, or vice versa? See "A segmentation you can act on" (www.mckinseyquarterly.com/links/19499).*

These changes created a sales support system that was better and cheaper than the one it replaced, but they also made it necessary to reassign a substantial number of accounts to new sales and service personnel and to

EXHIBIT 4

What can we afford?

How much potential must account have to receive team coverage?		How expensive is team?		What is maximum number of accounts 1 team can cover?		What % of revenue should be spent on SG&A[1] costs?
Cutoff level—minimum revenue required	=	**Team cost**—fully loaded compensation costs of sales team	÷	**Coverage ratio**—maximum number of accounts per team	÷	**Benchmark**—% of revenue allocated to sales team costs

Revenue, costs per account

High

Team comprising account manager, dedicated specialists

Cutoff level 3

Team comprising account manager, shared specialists

Cutoff level 2

Teams led by sales specialists

Cutoff level 1

Teams led by channel partner representatives

Low

Internal representative

Partner representative (eg, external distributor, reseller)

Level of expertise

Higher

Lower

[1] Selling, general, and administrative.

eliminate direct coverage for certain customers. To fend off competitors trying to exploit this flux, the company accepted some short-term channel redundancy (among other things) to ease the transition and mounted campaigns to make customers aware of how the new approaches (for instance, a dedicated Web site for volume purchases) would meet their needs more fully than the cumbersome account teams had.[3]

Putting the pieces together

Transforming a corporate go-to-market organization by resegmenting customers, redesigning the sales and service backbone, and introducing standardized overlays is a major undertaking that often takes from

[3] For more on channel migration, see Joseph B. Myers, Andrew D. Pickersgill, and Evan S. Van Metre, "Steering customers to the right channels," *The McKinsey Quarterly*, 2004 Number 4, pp. 36–47 (www.mckinseyquarterly.com/links/19500).

18 to 36 months. In our experience, the keys to success include sequencing initiatives carefully to generate cost and revenue benefits in the early months, building skills in a focused manner, and enforcing new forms of accountability. The experience of the advanced-materials company mentioned earlier, which changed the way 10 percent of its employees in five business units and 50 countries worked, illustrates each of these points.

Sequencing

Establishing the lean backbone is typically the most challenging aspect of reorienting a company's sales and service model because the effort involves change throughout the organization. Nonetheless, such a backbone often provides the cost savings to finance the rest of the transformation, so companies should start creating it as soon as they identify their customers' shared sales and service needs. In the case of the advanced-materials company, roughly a year was needed to consolidate invoicing, billing, and other support processes across Europe and to combine national sales offices by creating regional hubs. Within 18 months, the company had standardized its basic customer interactions, and its SG&A costs had fallen by 20 percent.

In year two, the company supplied its largest business unit with the overlays needed to create four new standard ways of interacting with customers. (One involved innovation-driven sales to global customers, another focused on value-added selling in national markets, and two were for customers with more standard needs.) The company first rolled out the overlays for the customers offering the greatest profit potential (for example, energy was the largest global segment and therefore an early target for innovation-oriented sales overlays). This approach made the rollout self-financing. Finally, in year three the company implemented the new sales and service model in all of its business units.

Capability building

The standardization that is central to rolling out a new sales and service approach cost-effectively often requires employees to acquire new skills. The advanced-materials company had to dedicate nearly 5 percent of its sales force to helping all the other salespeople get comfortable with the lean backbone and the overlays—a process that took several years. (One important element was learning how to use a new system to optimize the mix of orders that salespeople were seeking.) To support the rollout, the company brought in 15 sales experts and built a sales academy. It also focused on "micro-transformations" (of, for example, the sales support associated with a particular overlay) in one national market and then applied what it had learned to its sales training in another one.

New forms of accountability

The advanced-materials company established clearer accountability for sales and service interactions by auditing, on a quarterly basis, its salespeople's efforts to use the lean backbone and the overlays. In addition, it created new operational targets (such as customer acquisition rates, time spent with customers, and customer service costs) for each of these interactions. The company therefore abandoned the practice of measuring performance by function and instead held all of the units that were involved with a specific type of interaction accountable for results.

Over three years, the company's careful focus on sequencing, building skills, and accountability helped to cut its SG&A costs by 20 percent, triple its growth rate in the innovation-driven segments, and boost its return on capital employed by more than three percentage points.

Incumbents needn't remain stuck in the middle. To escape from it, they should rethink their customers' requirements, build a lean backbone to meet shared sales and service needs, and establish standard, high-touch overlays to satisfy more exacting demands cost effectively. *Q*

Thomas Baumgartner is a director in McKinsey's Vienna office, **Roland John** is a director in the Atlanta office, and **Tomas Nauclér** is a principal in the Stockholm office.

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