Haute Performance

Sales Marketing Alignment

June 2018

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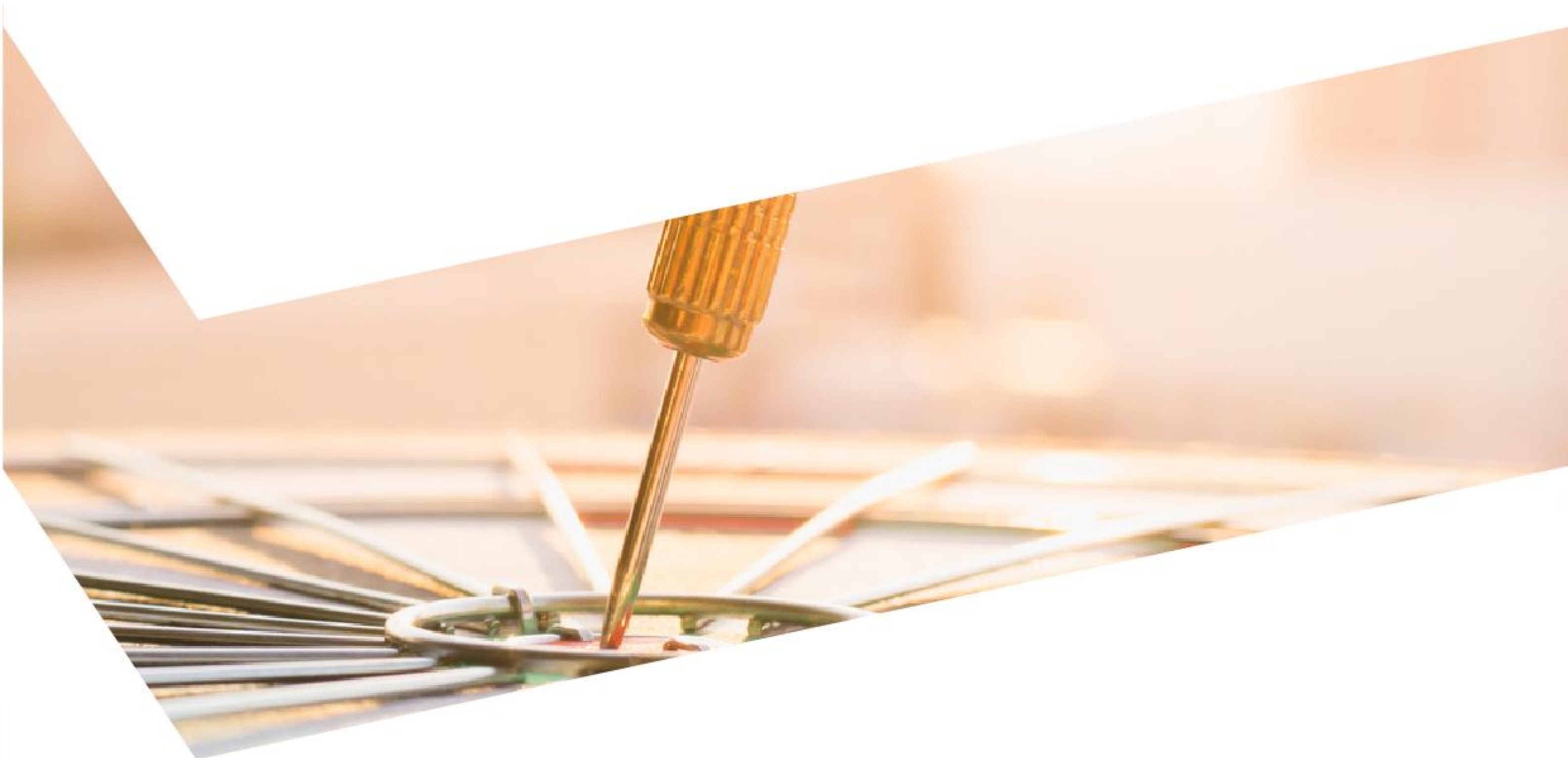
Executive Summary

The disconnect between Sales & Marketing departments of Branded companies can result in diminishing returns and sub-optimal spend of allocated funds.

By driving a data-centric process of measurement with a common framework, and continuously monitoring performance, Sales and Marketing teams can begin to "speak the same language" and collaborate more productively. The insights generated can fundamentally change the direction of campaigns and customer behaviour. This process has a lasting effect on alignment by being embedded into an annual budgetary review cycle. Most importantly, it has a significant impact on the bottom line, by driving improved market share performance with the same or even less advertising and promotional (A&P) spend.



Introduction

For all Branded Goods and Services companies, Sales and Marketing are critical to their survival.

The corresponding spend is also a significant line item: for more commoditised products it represents 5-10% of Turnover, 23% on average for consumer-packaged goods and more than 40% for luxury products. The mix between Sales and Marketing varies however by sector, often due to regulation (c.f. pharmaceuticals, tobacco, potentially liquor). What is constant is that Sales and Marketing approach their roles very differently.

The respective functions of Sales and Marketing are highly complementary and interconnected; one aims to generate demand while the other fulfils that demand through the relevant customer channels. Divisional alignment should be straightforward..., but very rarely is.

The complementary characteristics, taken to their extreme, often lead to a breakdown in collaboration. Marketing's expansive outlook can be viewed as disconnected from day-to-day reality by the Sales team. Sales' drive to meet quarterly targets, often by spending in the trade or discounting, can be viewed by the Marketing team as short-sighted and undermining of the brand equity.

But interdepartmental alignment is becoming increasingly important in a changing environment:

- Retailers are growing in strength and sophistication, spurred on by increased capabilities in big data and advanced analytics;
- Consumers are empowered with more information than ever before, to optimally navigate their ideal combination of product, price and channel; and
- Companies need to be permanently watching for the next disruptive competitor fundamentally changing the landscape.

It is difficult to traverse these challenges with siloed departments. Some companies have responded organisationally, through joint KPIs and by channelling Sales and Marketing reporting lines into a single Commercial Head. While this might help in final decision making, it treats the symptoms rather than the cause.

In Haute Performance's experience, greater alignment is achieved through a data-led journey usually comprising four steps;

1. Agree on the Measurement framework
2. Continuously Monitor Performance and Adjust effort accordingly
3. Generate Actionable Insights
4. Input Learnings into developing budgets and accounts plans

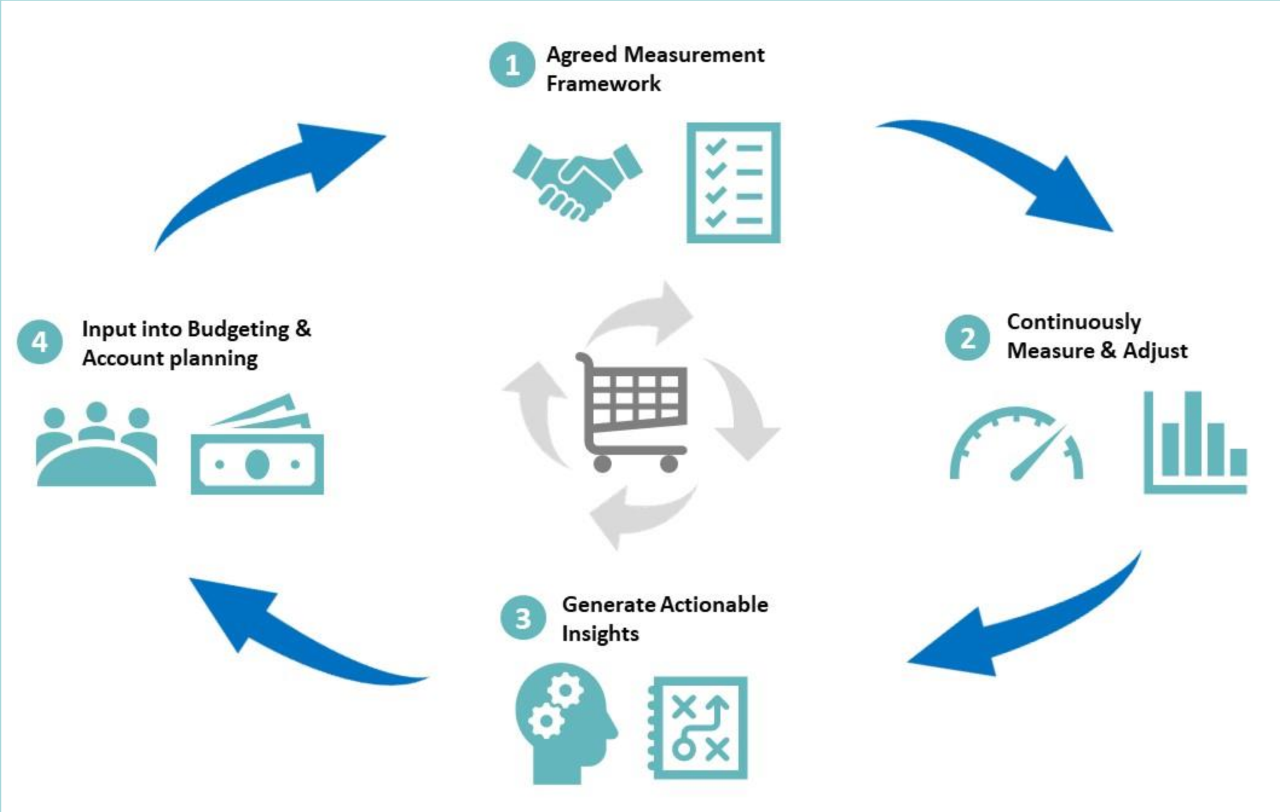
Same War, Different Weapons...

The misalignment between Sales & Marketing, whilst probably experienced first by the Dutch East India Company, was explored in detail by the seminal Harvard Business Review article, "Ending the War Between Sales and Marketing" (2007). This paper highlights two primary sources of friction:

Economic: Budgets must often be shared between Sales & Marketing

Cultural: Distinct types of individuals with different skills and mindsets gravitate towards these departments

Additional fuel has been added to the fire in the form of Big Data. In theory it provides a strong fact-base on which to assess and compare performance of Sales and Marketing activities. But data by itself is not a panacea. Indeed, used incorrectly it can justify a host of marginal decisions post-hoc. By clearly setting up the measures of success and agreeing upon the period of review, Data can be used to move from subjective opinion of effectiveness to an objective and aligned view of Sales and Marketing priorities.



1. Agree on the Measurement Framework

There are many measures of brand success. Usually the marketing team will focus on market share growth, brand value and brand health, using panel tracking supplied by market research firms (brand stairways and various proprietary models supplied by Kantar, IPSOS, Nielsen and others). Sales teams tend to measure success based on "hitting the number", generally trying not to give away too much spend to also hit the bottom line target. Whilst all important, different measures can lead to confusion and lack of accountability. If sales volumes are not met but brand affinity is increasing, then was it due to poor sales execution? If this same volume decline leads to a reduction in the future allocation of A&P investment for the brand, then should that spend be taken away from either sales or marketing activities?

In our experience the easiest way to cut through these arguments is to agree on the language and measurement tools; and the simplest way to do so is to implement a Return on Investment (ROI) framework. This ROI framework can be applied across categories and brands and also within the specific A&P activities of a single brand. What is important is to specifically define how the ROI will be calculated and the specific measures of success. While some complications will emerge (see the ROI insert) it allows for an objective measure of all A&P activities and removes preconceptions, emotions, and differing semantics.

Ultimately no measure will be perfect; rather what is important is the joint understanding.

Return on Investment (ROI)

Almost all companies have processes in place to measure the ROI of their Sales and Marketing Activities. But moving from measurement to insight depends on how the measurement is conducted, what gets measured and who is responsible for measurement.

How to measure

A&P investment must ultimately generate a gross margin contribution. A less stringent measure, often referred to as Return on Sales, is calculated as the brand contribution less the A&P investment; which assumes that without any A&P investment no sales would be made. The most stringent measures would suggest that A&P investment must deliver a net contribution exclusively from market share gain. The realistic answer is somewhere between these two extremes, recognising that some brand support is required to maintain market share, but that ultimately the brand has developed customer loyalty and would continue to generate sales even without any investment.

We recommend that companies with branded portfolios set different hurdle rates where market leading brands are "allowed" to recognise a portion of their A&P return in maintained market share, whereas challenger brands must source a higher proportion of their contribution from volume and market share growth. This mechanism replaces the need to justify what would have happened had the A&P not been spent. Major campaigns must also have defined and aligned payback periods like any capital investment programme.

What gets measured

It is human nature to focus on measuring major national campaigns that combine above- and below-the-line activities. Ideally this can be conducted via Marketing Mix Modelling analysis, but data robustness and availability generally impede an end-to-end statistical model, and some baseline assumptions must be applied to the numbers i.e. where the "art" of measurement meets the science.

Paradoxically the easiest measurements are on tactical activities. This is because specific comparison cohorts can be created to test the impact of an initiative, either by period or location. Best-in-class companies can refine this analysis by building detailed customer meta-data (catchment and demographic information) and time-based meta-data (competitor activity, market out-of-stocks, weather conditions etc.) When added together, the sum of tactical activities will invariably represent greater sales and marketing spend than major national campaigns that garner the majority of measurement focus.

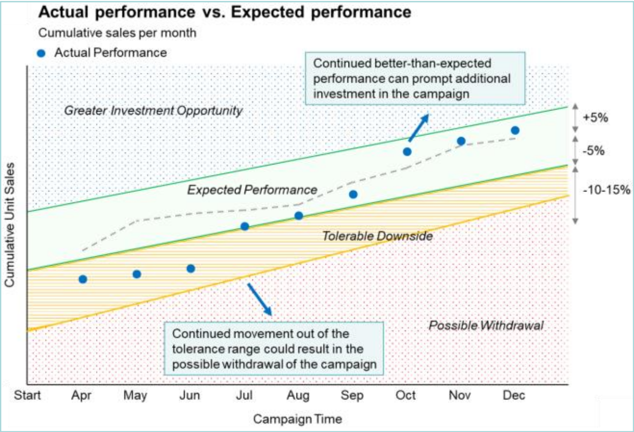
Who Measures

Brand or marketing managers are expected to measure activity effectiveness as part of their 360° campaign management. However, this can lead to much post-hoc rationalisation. It is best to have a neutral party driving the analysis, which progressively sits with a Data Analytics team. It can be tempting to also rely on 3rd parties such as media agencies and retail activity evaluation reports but it must be remembered that such parties have every incentive to cherry pick their information to position the performance as positively as possible. What is critical is that measures of success are agreed upon prior to the campaign and that all parties recognise that poor performance for individual activities is not uncommon; not all levers will work all of the time.

2. Continuously Monitor Performance

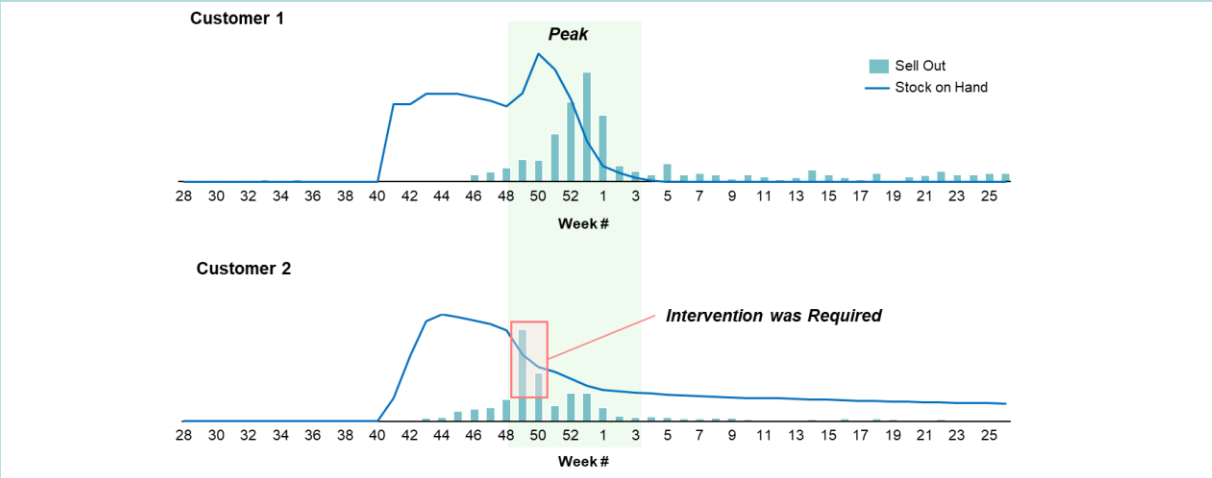
Once agreed upon, the Sales and Marketing measurement framework must be tracked and monitored on a continuous basis. Introducing a shared dashboard provides the tool to easily monitor campaigns at a macro level, allowing each department to easily check the overall "health" of an active campaign.

Like in any good Dashboard design, Sales and Marketing Dashboards should begin with high level effectiveness measures, namely overall brand growth, market share movement, total brand spend and calculated return on that spend. Each of those measures would be made up of constituent parts that can be drilled into; some of which are updated in real-time or daily, and others monthly or in some cases annually. Best-in-class Dashboards can combine brand- with operational-measures such as activation timing, validated execution of activity within stores, and store sell-through rates. Data availability usually limits the completeness of the Dashboard, but as long as all limits are understood and acknowledged, it provides a singular view of performance. The key is to start; and once started, improve…



Even without effective dashboards, it is critical to set up performance expectations prior to the launch of a campaign. This forces both the Sales and Marketing teams to reflect on the length of time expected for demand to react, and more importantly what minimum hurdles must be reached to trigger the release of further funding. Ongoing monitoring of campaigns negates the knee jerk reactions that result from negative performance tracked in a quarterly report. Rather than "pulling the plug", campaigns can be readjusted with up-to-date information which means that smaller incremental changes are possible during a campaign. By setting upfront key tolerance metrics for a campaign, both Sales and Marketing can hold their nerve. Outside of those tolerance levels, campaign spend can be held back, readjusted across different activities or increased.

*Client Example: **Value-added Packaging (VAP) Sales Performance***

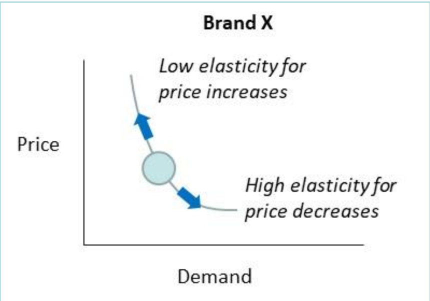


By combining internal sell-in data, and external sell-out data, Brand owners can develop a good view of sell-through rate down to a store level which is particularly relevant when monitoring the performance of discrete gifting / VAP campaigns. When sell-out data is available on weekly basis it can allow companies to react in close to real time. In the above example, the Gifting promotion in Customer 1 worked effectively with peak sales driving out stock in the store. In customer 2, peak sales occurred early and did not pick up sufficiently to sell out the remaining stock. Real time monitoring would allow for additional interventions and / or discounting to reinvigorate the promotion.

3. Generate Actionable Insight

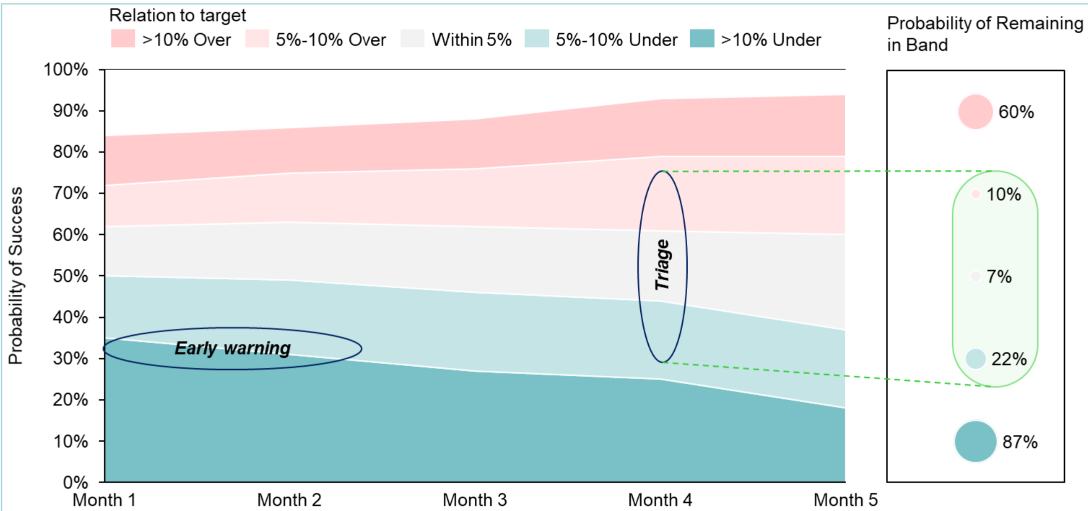
A singular focus on the ROI of specific Sales and Marketing activities will deliver key insights. These insights can be used to change the way in which an activity is conducted; sometimes in real-time. Although retailers generally have a very good understanding of how products are performing within their stores, they do not have the overview of the brand owner who can observe sales of their products on a national basis. By sharing these insights with retailers, both parties can benefit, and behaviour can be amended. It allows the conversation to move from "how much are you going to give me?" into "how can we both generate value from this activity?".

Client Example: ***Annual Pricing Increase Decision***



In a commoditised market where it was becoming increasingly prevalent for brands to not take annual price increases, the marketing team was contemplating following this strategy with some of their leading brands. A review of the performance of competitor brands before and after pricing changes revealed high levels of elasticity for mid-market brands taking price decreases, but very low levels of elasticity for leading brands that took price increases. This suggested a significantly bifurcated sub-category in what was believed to be a single market, encouraging the team to take the full annual price increase on their leading brands.

Client Example: ***Ongoing Instore Sales Promotion***



When reviewing the historic performance of stores that participated in a promotional programme, it was identified that the likelihood of store success could be predicted with high levels of accuracy after the first month of sales, and with even greater levels of accuracy after months two and three. By developing an early warning system, reps could be alerted to those stores that were predicted to fare poorly and direct their efforts accordingly. By month four, they could follow a *Triage* strategy, focusing on the medium performers, briefly checking in on the best performers, and not wasting time with the worst performers.

4. Input Learnings into developing budgets and accounts plans

Knowledge of what worked and did not work in the past must guide decision-making during account and brand plan development. All too often budgeting processes are dictated by Head Office or Finance Departments, and commercial teams are expected to "make it happen". With a measurement framework in place, Sales and Marketing professionals can use a fact-based bottom-up approach to justify their budgets, whilst giving the C Suite greater confidence that the "Art" of expected brand and account performance is supplemented by scientific data. By facilitating a joint discussion between the two departments, each can put forward its proposal for a given brand and as a collective, agree on which Sales and Marketing activities are best suited. In this way the balance between "Push" and "Pull" levers can be determined for each brand.

The benefits of alignment within Sales and Marketing will spill-over to other areas of the organisation. The information gathered, and outputs developed will greatly assist the Key Account Management (KAM) team in its account plan development and customer negotiations. The same partially redacted fact-base used in budget development can also form part of the negotiation script, adding greater justification for why, for example, a specific activity spend must be reinvested in more productive activities. In the best-case scenario, KAMs are enabled to interact with their increasingly sophisticated customers on a more balanced footing, creating a two-way street of shared data and commitment to realise an optimal solution for both parties.

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Final Words

The described process is simple in concept but difficult in implementation. A lot of work goes into generating frameworks and definitions, and in matching and aligning data. Indeed, a lot of companies have looked to implement measurement tools, only to lose interest or confidence in the outputs. The key is to stick with it. In our experience it can take attempts through a number of budget cycles before the Sales and Marketing teams truly begin to see eye-to-eye on what each other brings to the table. This meeting of the minds is enabled through the journey itself, fostering collaboration as both parties use the same language to debate the relative strengths of their available A&P options.

Most importantly, closer alignment leads to greater return on spend; doing more with the same spend. Companies that have followed this process have been able to drive both revenue and market share growth with a decreasing percentage of Sales and Marketing spend to Turnover. Ultimately having sound reasoning and proven efficacy behind all brand activities that have been signed off by both the Sales and Marketing team will significantly cut wasted spend and direct it to where it is most productive.

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For more information on how to drive your sales and marketing initiatives, please contact Haute Performance at *info@hauteperf.co.za* or the authors:

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