

What is Commercial Excellence?

By Mads Sand Madsen

The purpose of this Sales White Paper is to provide an understanding of the conceptual framework for commercial excellence. Companies are eager to improve their strategic approach to markets, and resort to conceptual words such as Commercial Excellence to reference their goals and describe what they are trying to accomplish. In the process, we risk producing another buzzword, just as “disruption”, “coaching” or “best practices” have become. We need to understand the concepts in more detail in order to make them operational.

So what is commercial excellence? Research at Copenhagen Business School¹ argues that the concept has not yet been subject for thorough academic research due to its relative novelty as an organizational discipline. Despite this, global consultancy companies use commercial excellence to describe a specific way to achieve stronger financial results. This White Paper uses available research combined with our own thoughts and experiences to unfold the current conceptual framework of commercial excellence by examining how consultancy companies use and understand the concept.

New market challenges ahead

Commercial excellence is an area in which many companies can improve and use to create increased customer loyalty and more revenue, without significantly changing their business model. A market trend analysis made at Copenhagen Business School shows the growing importance of commercial excellence. The CEO's of the 500 largest corporations in Denmark were asked about the major challenges they anticipate for the future. The top three responses were increased competition, increased price pressure, and declining customer loyalty. All are areas in which commercial excellence works to improve. Another survey made at CBS shows that the three best ways to create growth in the majority of the 1.000 companies that participated in the survey are:

1. Develop a more offensive client-oriented growth strategy
2. Make the client-based processes more efficient
3. Develop a more client-oriented company culture

The two surveys outline a significant trend supported by examples that commercial excellence programs have the potential to add as much as 3 - 5 % to the profit margin within six months. Commercial excellence has its place in the strategic framework that companies work within, and seems to be an area that companies must address if they want to optimize their business².

The aftermath of the 2008 financial crisis challenged companies' ability to increase sales. Initially, companies focused on maintaining their profits by cutting expenses to a minimum, seeking to improve efficiency through operational excellence. According to a PWC study, many companies in B2B markets have reached a point where the potential of improving efficiency through operational excellence fur-

ther is marginal, and further cost reduction would jeopardize areas of their business. As a result, these companies are struggling to achieve their financial goals and looking for new methods to survive and grow. Commercial excellence is a part of the solution.

Commercial excellence is an umbrella of concepts and activities to achieve overall improved commercial efficiency. PWC defines commercial excellence as an approach in which a company strives toward an increased and more accurate understanding of their customers and their individual needs. Successfully implemented, commercial excellence programs create a favorable position for the company and their ability to achieve their financial goals, without necessarily getting new customers or changing its products. Organizing company activities to understand and deliver what customers want and create value in collaboration with the company more efficiently is the core element of the concept. The company focuses on the value creation seen from the customer’s perspective, with the precise metrics depending on industry, customer verticals, and individual strategic customers, to implement commercial excellence strategies. Commercial excellence strategies depend on the individual company and the nature of the market. As a result, they are closely linked to creating sustainable competitive advantage through developing organizational core competence³, as compared to generic competitive strategies such as low cost, quality, or specialization.

This is exemplified in three empirical cases by McKinsey, BCG, and Bain & Company. The cases are from within mining, engineering, and chemicals, showing that commercial excellence is applicable in different industries. They all have shared characteristics, but the concept of commercial excellence varies according to the specific industry; that is, the concept is also an industry-contextual term. The following table shows different definitions and takes on how to best implement a commercial strategy.

How the big Global Consulting firms define commercial excellence:

MCKINSEY (MINING & METALS)	BCG (ENGINEERING PRODUCTS)	BAIN & COMPANY (CHEMICALS)
<ul style="list-style-type: none"> - A clearly defined, and ambitious, commercial aspiration. - A robust product-market strategy. - A clear set of choices on which parts of the mining value chain to participate in. - Well-honed levers to capture commercial value, including pricing, contract management, trading, branding, and key account management. - A powerful commercial operating system. 	<ul style="list-style-type: none"> - Channels are actively managed and steered by profitability and cost-to-serve considerations. - Sales force effectiveness is steered by multidimensional targets such as volume, profit, and customer satisfaction. - Pricing is based on customer value, differentiated by micro segments. - Specific training and retention programs are in place, especially in emerging markets. 	<ul style="list-style-type: none"> - Reduce complexity: To make it stick, leaders embed into the organization concepts like cost-to-serve, and plan to manage complexity as they develop new products. - Maintain pricing discipline: Great companies understand their products’ value to specific customers. They price accordingly to make products attractive enough to draw new customers while maximizing value from their existing customers. - Identify and focus on the most attractive segments.

Commercial excellence is not only a concept within the large global consultancy firms. Larger, regionally based consultancies, such as the Danish Implement Consulting Group, also work within commercial excellence and focus on six areas in order to achieve commercial excellence:

How Implement Consulting Group, defines commercial excellence:

IMPLEMENT CONSULTING GROUP

- **Differentiation:**
Be different and earn more.
- **Pricing:**
Mastering the art of pricing in order to improve profits.
- **Sales leadership:**
Realize the full potential of your sales organization.
- **Global sales force transformation:**
Create a consistent sales strategy across all divisions.
- **Customer relationship management (CRM):**
Use CRM to increase the value of sales and marketing activities.
- **Customer centricity:**
Increase growth by creating great customer experience.
- **Building a leadership brand:**
Find the shared identities among your organization's leaders.

Neither the regional nor global management consulting firms provide a definition of commercial excellence as seen with PWC. They have a more practical and hands-on approach, and do not give a very thorough explanation of the key areas within commercial excellence.

PWC defines three essential areas to implement within commercial excellence, regardless of industry: margin diagnostics, customer segmentation, and pricing. We have added program management as a fourth key area.

Margin diagnostics serves as a tool for tracking performance, and is an alternative to the tradition of financial reporting, as it focuses within geographical regions, sectors, products, and most important customers, as opposed to units or divisions. It uses visual data, rather than spreadsheets and number columns, for quick and convenient presentations.

We consider this approach as an attempt to have a more “outside-in” view on data, which drives a more customer-oriented approach in the decision making process within various levels of the organization.

The second area is **customer segmentation**. With the commercial excellence approach, customers are divided into groups based on their service needs, whereas traditional segmentation is based on other demographic variables, such as industry, company size, and geography. With this approach, it is possible to create a standard that is somewhat unique to the individual customer.

We call this approach “customer portfolio analysis and segmentation,” and claim that the implication – which is a shift from market segmentation to customer segmentation – has not yet dawned fully on senior management in most companies. Working with value propositions transforms from being developed and communicated to the market based on researched demand, to being developed and created in collaboration with key clients, and then leveraged across the segment to other customers.

The third area is **pricing**. In this area, according to global benchmarks, there are three approaches and a company should be able to manage them all. First, cost-plus is figuring out the company’s total cost and then adding a “markup” to get a specific return. The second approach is index pricing, which makes price adjustments as the price of materials or services fluctuates. The last approach is a competitor-focused pricing, which makes an informed guess on what the competitor is taking for a given product.

The key areas seek to develop more informed and fact-based outside in strategies by the use of commercial excellence, so that the company can get a better understanding of the needs of their customers.

We would add **program management** as the fourth area to commercial excellence. Within our client base, the key to commercial excellence is to drive it as a series of prioritized activities. Implemented initiatives deliver value, not the conceptual thinking in itself. Executing a commercial excellence program often takes years; therefore, it is important to harvest short-term benefits and margin improvements as we aim for a long-term competitive position within our customer segments. Prioritizing, managing, and driving these initiatives to improve commercial excellence completely relies on the support from top management through activities lead by the organizational anchor. Program management does not need to create an image of being something complicated, bureaucratic, long-term, or of little value. It does, however, need to be *activity based, linked to strategy, and prioritized for critical company initiatives*.

We believe that the implementation of commercial excellence in its radical form will affect how companies organize. We believe that future interactions with customers hold less salespeople and more subject matter experts with direct sales responsibility, that companies will strive toward more cross-function and collaborative forms of organizing, and that they will attempt to involve their customers in co-creating value propositions.

As we see it, the organizational set-up must address the need for much more collaboration across responsibilities dealing with Sales, Marketing, R&D, Production, Finance, Delivery, and Service. Paired with findings within business-to-business procurement operations, we can see a rapid change in buying behaviors. There is a decline of customers willing to contact classic salespeople, and an increase in customers willing to engage with external subject matter experts that can give valuable input to help solve current challenges the customers may face. The traditional sales roles and the strict organizational structures will give way to a more integrated model, where process and methodology, combined with subject expertise, replaces the current dependence on the individual salesperson.

As any development with a sustainable competitive advantage, this will not happen overnight; it will take five to ten years of evolution. Most professional and well-established companies are already pursuing this approach, and gradually mature in their ability to execute commercial excellence initiatives that benefit the customer through greater value creation, as well as the company's own performance.

From art to science

The areas within commercial excellence, such as sales and marketing, can be seen as somewhat intangible. This stands in contrast to operational excellence, production, and finance, which are considered more tangible and within the realm of scientific methodology. According to the BCG article "Commercial excellence in engineered products: The Journey from Art to Science," sales strategy is shifting from intuition to a focus on statistics and facts. The most dramatic change is the conceptualization and methodologically within sales. Before, the salesperson would act as an individual "artist" relying on an approach strategy based on intuition and feeling. This may be an explanation for why many companies are struggling within the area of commercial excellence, and why this area seems to be an untapped resource.

Commercial excellence can be seen as the systematization and conceptualization of how to understand and better interact with your customer. This approach is creating a dialogical framework by which you and your customer thoroughly investigate the potentials of value creation from a customer-based perspective *together*. Organisations do not buy. People do. They do not buy the product or service in itself, they buy what the product or service can do for them. They buy the promise of created value.. The long term success depends on the ability to deliver promises.

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- 1 Jakob Andersen, 2013
 - 2 Jesper Krogh Jørgensen, 2010
 - 3 Aaker et al; Strategic Market Management;
Evans et al; The Global Challenge: Frameworks for International Human Resource Management
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