4 ways to increase growth and improve business performance in the era of organisational complexity (2)

For almost a decade now, since the economic crisis began, management focus has shifted from managing growth to reducing costs, optimising capex and restucturing debt. Discussions about innovation, a key topic until recently, have been substituted by digital transformation, and efficiency improvement programmes have been launched in numerous companies as a way to achieve financial goals.

In implementing this change in focus, companies have deployed intricate management practices and structures resulting in significant internal complexity. In my previous article ***4 ways to increase growth and improve business performance in the era of organisational complexity (1)*** – I describe how this situation builds up and creates negative effects on growth and profitability, what I believe are the ultimate measures of business performance.

<u>In this follow up article</u>, I suggest 4 areas where you can look for improvement opportunities. Not all the business face the same issues, so it might well be that your company has only potential to improve in one or two of the topics outlined here.

(a) Is your company competing with a complex product portfolio?

It is common practice that large companies often operate with extensive and complex product portfolios. In some industries like telecommunications, operators can have up to 200 products and services available for commercial activity across channels.

These complex portfolios make work more difficult for sales agents, communication, branding, and customer management teams, creating a negative impact on commercial performance and ROI: Do you have the feeling that your dealers are not sufficiently well trained despite investing substantial amounts in training? Have you ever thought that the communication investment and campaigns have limited impact on sales? Are your customers satisfied with their interactions with the call centres? Do you think that your website is still too complex? Does the development and launch of new products take longer than it should? Indeed, all these situations are also impacted by product portfolio complexity.

Sometimes the complexity is not only caused by the range of products and services per se, but rather it originates in the very definition of the value proposition of the product itself: too many features, or functionalities not connecting strongly enough with the client needs, increase the difficulty to communicate in simple and concise terms the benefits of the product. A simple test you can try is this: ask a product manager what would be the ideal advertising claim for the product under his/her responsibility and which visual illustration he/she would use to communicate it. If the message is not clear enough, or if it implicitly leaves out important parts of the functionality, the product is not well conceived from a customer needs point of view, or you could have saved costs in the production of the product by not investing in some of the functionalities it has.

In short: simplifying the portfolio almost always results in an increase in sales productivity, faster time to market, greater ROI, and savings in a multitude of hidden costs. How long has it been since you undertook a radical pruning of your current portfolio?

(b) Are you maximizing the full potential of the sales channels?

Salespeople sell the services they talk about in their pitch. The less "universal" a product or service is - i.e., that it can only be communicated or promoted to a limited percentage of customers – the faster it stops being part of the commercial pitch. For example, if a retailer of consumer electronics has an insurance service that is more relevant for more expensive high end products, like premium HD Smart TVs, how many opportunities do they have to promote this service in a month? If 20% of sales are high-end TV's, and of these 30% purchase insurance, we would be talking of a 6% success rate. This can well mean a sale every two months for an average sales agent... It is understandable that they try to focus on other services where they have more opportunities to engage a larger percentage of their customers.

Omnichannel management is another key variable. For some years, companies have developed digital channels under the well-brought arguments of cost savings and convenience for the customer. But few organisations have a good understanding of the underlying economics and the dynamics of the sales channels, resulting sometimes in inadequate management decisions. For example, as a first approximation, the Online acquisition unit cost is up to 4 times cheaper than that of Outbound telesales. But Online customer acquisition tends to cannibalise sales already taking place in other channels, while Outbound telesales tends to create incremental commercial activity, i.e., it brings new customers that are not already buying from other channels. Therefore, the comparison is not so simple. On the other hand, if communication and demand generation costs are properly allocated to each channel, we surprisingly see that the unit costs of incremental customer acquisition tends to equalize between push channels, such as Door to Door or Outbound telemarketing, and Pull channels, such as Shops, Online or Inbound telemarketing

"Services to sales" is another well known area of potential sales increase. Each customer contact without a negative connotation is an opportunity to sell additional services. If this is the case, why do so many companies fail to successfully implement this sales activity? There are three key obstacles that need to be overcome. First : the Customer Care manager does not have sales incentives, but only customer loyalty incentives. However, new acquisition often creates more economic value than churn reduction (not so for customer retention). Needless to say that the economic incentives of your providers also need to be aligned. For example, the call centre compensation framework might need change to accommodate the resulting call length cost produced by the new sales activity. Second: the team profile. Customer Care organisation managers and teams do not always have a sales driven profile, and face difficulties in setting up the management dynamics that are needed to turn a Post sales operation into a Sales operation. Third: Lack of tools to develop a new commercial activity. It is not always the case that sales tools have been deployed in the call centres. Sometimes IT development is needed. With legacy systems in place, it is not rare to see customer care agents having to manage multiple computer screens and systems for data entry (up to seven for a single service to sales interaction) in a highly inefficient process.

The last "classic" in this section is the commissioning scheme, which tends increase in complexity as the number of marketable services grows. The degree of economic optimisation can also be a factor. For example, in a company where there are 9 value-added services to market, if the CFO sets a 2 month payback policy across the board, this might well result in 9 services with 9 different unit commissions (assuming that each service has a distinct unit margin). This policy is simple for the CFO but complex for the sales teams, which would prefer a much simpler scheme. For example, if services are grouped by margin in a "high-mid- low" format, and a 2 month payback policy is set for each category, then there would only be 3 different commissions instead of 9.

c) Can you get more out of the communication investment?

A well-known business leader once said that half of the marketing and communication spend does not work, but he just doesn't know which half it is. Good Business Analytics help address this issue and there's no doubt that in advertising, Direct Response Strategy has done a lot to better measure advertising returns.

Having said so, a lot more can be done in order to further optimise communication campaigns by improving the work done in three key areas:

1. The communication campaign brief. This is where everything begins. It is very difficult for an Agency to develop a good campaign with a poor brief, unless of course the Agency´s proposal does not satisfy the given brief. Common reasons as to why the briefs are not well constructed? The product or service offering is too complex or does not respond to clear consumer needs, as we have frequently seen in the technological world. Try to draft a simple advertising brief for a communication campaign of a telecommunications service that includes a fiber connection, two mobile lines, each with different baskets of minutes and megas, access to HD TV content, and a mobile handset. Difficult isn´t it? On other occasions the problem is that product managers do not have the necessary communication skills to prepare the brief. Alternatively it can happen that the Communication and Brand Deparments set themselves up as a barrier between the Marketing teams and the Creative Agencies, and rewrite the campaign brief without the input of the marketing department, which understand much better the market and the key benefits of the product that needs to be communicated.

2. The creative advertising concept. It is well known that there is lots of creative talent in advertising agencies. But sometimes this talent is not sufficiently oriented to producing commercial results. Ads presenting a "sequential problem- solution structure" leading to a purchase recommendation are less memorable than ads that

repeat the same message several times with different visual creative expressions over and over again. This has to do with how viewers tend to watch media and the “background noise” that they are exposed to during advertising periods. For the creative agency this last approach can be considered "overly simple and boring", but commercially tends to work far better than the former one. On other occasions Creative Directors try to meet client needs while satisfying other agency interests at the same time, like presenting an advertising campaign as a candidate for a specific Award. This may cause some distortions in the commercial attractiveness of the spot in favour of other criteria, which are of value for the Agency. On the other hand, it is also true that creative agencies must deal with a lot of “interference” from their clients making their work even more challenging. A typical case is the direct participation of senior executives whom lack communication knowhow. Not knowing what to look for when watching TV commercial, they introduce unnecessary constraints that hinder the essence of the creative advertising concept. The CEO involvement may be necessary, but it is far more constructive to have the CEO give green light to the brief, which is the element on which the creative concept is built, than to have him provide direct recommendations on how the TV spot needs to be modified at the end of the process.

3. Finally, the media plan. Media planning is quite a technical skill, however, it is frequent that media teams within Organisations have limited analytical capabilities. Moreover, they tend to work in isolation, with limited challenge from senior executives, who tend to focus more on judging the creative quality and fit of the communication. In this context it is often the Media Agency, who, despite having vested interests by their fee structure, provides most of the intelligence on how the Media budget should be allocated. Should we invest more on TV than on Online? How much should we devote to Outdoor communication? And at what cost? There are some guidelines that can used to help with these decisions, but to optimize the media budget you must determine analytically which media mix is ideal for your specific situation and objectives. This requires modelling the approximate cost of acquiring an incremental customer by type of media; TV, online, radio, outdoor, print, etc. From here the idea is to first use the media with lower cost per incremental sale (TV and Online), and then add the media immediately more efficient. Then, trial and error based on daily measurements should guide us in determining the final allocation of the budget to the different media. This management approach sometimes faces certain barriers, such as the existence of various media agencies within the organisation (one managed by the Brand team and another one managed by the Digital team) and consequently, the fragmentation of the media budget amongst different departments. Someone needs to be responsible for optimising the Budget as a whole for this suggested approach to work correctly.

(d) Do your efforts in innovation have a clear impact on growth?

It is no mystery that the Pareto principle applies to most business activities: 20% of the products or services are likely to make 80% of the turnover.

If your company is experiencing a slow down in the contribution of these products, focus the efforts of the innovation teams on these core products before attempting to innovate in new business categories with unclear impact on growth. After all, if a product or service has an important weight on the business, this is probably due to the fact that it builds on a competitive advantage that your company has developed over the years, and innovations that reinforce or refresh these advantages tend to produce more growth in less time than alternative investments in other types of proposals.

Consequently ask your innovation teams that a significant number of their projects be focused on improving the core product categories. Remember that time is a key management constraint and any product launch competes for this limited resource in equal terms. It is best to focus the limited resources where they are likely to produce greater results, and this is typically in those areas where your company has created competitive advantage.

****

As we said in the introduction to this article, internal complexity is increasingly common in large organizations. This complexity hinders growth and deteriorates profitability.

We have highlighted 4 key areas where it is likely you will find ways to increase growth and improve business performance: product portfolio complexity, effectiveness of the sales model, advertising process optimisation, and focus of the innovation initiatives

It may also be that your company needs organizational change. If that is the case avoid complex structures with intricate reporting and proliferation of KPIs. Make sure that in the resulting design there are no overlapping roles, and that all the employees have a good undertstanding their goals and responsibilities, with a clear view of how their work impact business performance. By doing this, you will be moving away from the current *organisational complexity era* and be better positioned to embrace growth